

8/18/78 [2]

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THE WHITE HOUSE
WASHINGTON
August 18, 1978

BOB LIPSHUTZ

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

RE: Executive Privilege Claim

THE WHITE HOUSE
WASHINGTON

8/17/78

Mr. President:

Lipshutz indicates that a cursory glance at the 21 documents will suffice for the purposes of paragraph four of the affidavit.

Rick

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION -

ACTION
FYI

	ADMIN CONFID
	CONFIDENTIAL
	SECRET
	EYES ONLY

	VICE PRESIDENT
	EIZENSTAT
	JORDAN
	KRAFT
	LIPSHUTZ
	MOORE
	POWELL
	WATSON
	WEXLER
	BRZEZINSKI
	MCINTYRE
	SCHULTZE

	ARAGON
	BOURNE
	BUTLER
	H. CARTER
	CLOUGH
	COSTANZA
	CRUIKSHANK
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HUTCHESON
	JAGODA
	LINDER
	MITCHELL
	MOE
	PETERSON
	PETTIGREW
	PRESS
	RAFSHOON
	SCHNEIDERS
	VOORDE
	WARREN
	WISE

	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

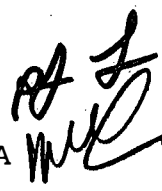
THE WHITE HOUSE

WASHINGTON

August 17, 1978

C
/

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT LIPSHUTZ
MARGARET MCKENNA 
SUBJECT: Executive Privilege Claim

Attached is an affidavit for your signature which claims Executive privilege with regard to seventeen documents sought by the plaintiffs in a lawsuit. The lawsuit has been brought by National Corn-growers Association Inc. and Corn Refiners Association Inc., against Secretary of Agriculture Bob Bergland to overturn your decision on sugar import quotas.

The seventeen documents consist of memoranda from officials of the Department of Agriculture and the White House Staff giving you recommendations and opinions and advice on the sugar quota issue. We believe these documents should remain confidential so as not to impair the free flow of advice to you.

We have claimed Executive privilege twice in the last nineteen months in court. Both of those times you were out of the country and I signed the affidavit for you. The Justice Department believes that, in order to present our case most effectively, you should sign the affidavit personally. We agree and recommend that you sign both copies of the attached affidavit. Please note paragraph 4.

Attachments

TWO SIGNATURES REQUESTED

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF IOWA
CENTRAL DIVISION

NATIONAL CORN GROWERS ASSOCIATION,)	
INC., et al.,)	
Plaintiffs,)	
v.)	Civil Action No.
ROBERT S. BERGLAND, et al.,)	77-298-1
Defendants.)	

AFFIDAVIT AND CLAIM OF PRIVILEGE

I, Jimmy Carter, being duly sworn, do depose and say as follows:

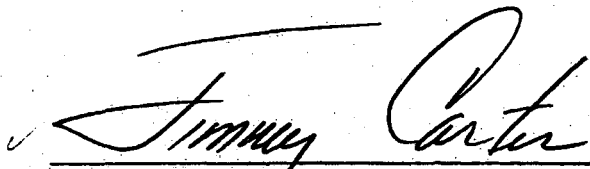
1. I am the President of the United States.
2. I understand that plaintiffs National Corn Growers Association, Inc. and Corn Refiners Association, Inc., have filed suit in the United States District Court for the Southern District of Iowa, Central Division, against Secretary of Agriculture Bob Bergland, among others.
3. I have been advised that on or about January 10, 1978, the plaintiffs filed a First Request for Production of Documents which sought fourteen (14) categories of documents within the possession and control of the Secretary of Agriculture.
4. I have personally reviewed twenty-one (21) documents presented to me by my Counsel and which I understand are sought by the plaintiffs. Seventeen (17) of these documents, some of which bear my handwritten notations, are described in the list attached hereto as Exhibit A and are subject to a claim of executive privilege as specified below.

5. The documents described in Exhibit A consist of minutes of a cabinet meeting as well as communications between officials of the Department of Agriculture and the Secretary of Agriculture, officials of the Department of Agriculture and my staff, the Secretary of Agriculture and me, and my staff and me. These documents set forth and reflect considerations, recommendations, deliberations, and options, comprising part of the process by which governmental decisions and policies are formulated and carried out and official duties and responsibilities are discharged.

6. The free and frank discussion within the intra- and interagency process with respect to the mandate of the Department of Agriculture to maintain a viable domestic sugar industry through the provision of a price support payment program and a subsequent price support loan program for domestic cane and beet sugar is, in my judgment, an essential part of the decision-making process. To be effective, however, such communications, recommendations and views must remain confidential.

7. Production of the seventeen (17) withheld documents would necessarily recount the reasoning, deliberations, expressions of views and opinions of officials of the Department of Agriculture and my staff involved in the preparation of advice to me. The release of these documents would, in my judgment, be injurious to the public interest and to the constitutional doctrine of separation of powers because I, as President of the United States, need to receive frank recommendations and opinions from officials of the Executive Branch and my staff to effectively discharge my constitutional duties. Any impairment of the free flow of recommendations

and advice to me would adversely affect the public interest.
I therefore assert this formal claim of executive privilege
as to the documents described in Exhibit A.



JIMMY CARTER
President of the United States

Washington)
) ss.
District of Columbia)

Subscribed and sworn to before me this ____ day of August,
1978.

NOTARY PUBLIC

EXHIBIT A

LIST OF DOCUMENTS UPON WHICH A CLAIM OF EXECUTIVE PRIVILEGE IS INVOKED

1. Two page memorandum dated November 11, 1977 from Stuart Eizenstat and Lynn Daft to the President, the subject of which is "Implementation of the de la Garza Amendment". It is a memorandum of an advisory nature concerning options and recommendations relative to the implementation of the de la Garza amendment and import restrictions, including the possibility of imposing tariff fees or duties on imported sugar. The memorandum contains the President's handwritten notations which reflect his policy preference.

The memorandum has two attachments: a two page press release dated November 8, 1977 regarding the implementation of minimum wage rates for sugar fieldworkers and a two page press release dated November 8, 1977 regarding the implementation of the sugar price support loan program. No claim of executive privilege is made as to these attachments.

2. One page memorandum dated May 24, 1977 from Stuart Eizenstat to the President, the subject of which is "Proposed Sugar Program". It is a memorandum of an advisory nature which sets forth options and recommendations regarding the sugar price support payments program and the retention by processors of sugar of part of the payments made thereunder as well as the exclusion of certain sugar crops from its coverage. The memorandum contains the President's handwritten notations which reflect his policy preference.

3. Three page memorandum dated September 10, 1977 from Stuart Eizenstat and Lynn Daft to the President, the subject of which is "Sugar Policy". It is a memorandum of an advisory nature which contains options and recommendations regarding the establishment and implementation of an interim sugar price support payments program and the price support loan program. The memorandum contains the President's handwritten notations which reflect his policy preferences.

4. Six page memorandum dated January 16, 1978 from Stuart Eizenstat and Lynn Daft to the President, the subject of which is "Implementation of the Sugar Price Support Program". It is a memorandum of an advisory nature containing options and recommendations regarding problems arising from the imposition of fee schedules on imported sugar. The memorandum contains the President's handwritten notations which reflect his policy preferences.

5. Seven page memorandum dated April 23, 1977 from Stuart Eizenstat and Lynn Daft to the President, the subject of which is "Sugar Policy". It is a memorandum of an advisory nature containing options and recommendations regarding methods of interim and long-term assistance to the domestic sugar industry. The memorandum contains the President's handwritten notations which reflect his policy preferences.

6. One page memorandum dated May 24, 1977 from Secretary Bergland to the President, the subject of which is "Proposed Provisions of Sugar Program". It is a memorandum of an advisory nature concerning recommendations and approval of a price support program for sugar. The memorandum contains the President's handwritten notations which reflect his policy preference.

The memorandum has one attachment: a draft press release dated May 23, 1977 regarding the proposed sugar price support payments program.

7. Ten page memorandum dated November 7, 1977 from Stuart Eizenstat and Lynn Daft to the President, the subject of which is "Implementations of the de la Garza Sugar Program". It is a memorandum of an advisory nature which contains a review of, options and recommendations relating to the price support of sugar, including implementation of the price support loan program mandated by the de la Garza amendment.

8. Three page memorandum dated July 7, 1977 from Stuart Eizenstat and Lynn Daft to the President, the subject of which is "Sugar Policy". It is a memorandum of an advisory nature concerning the status of negotiations relative to the International Sugar Agreement and a review of and options as well as recommendations relating to the imposition of tariffs on imported sugar and the effects thereof. The memorandum contains the President's handwritten notations which reflect his policy preference.

9. Two page document consisting of the Minutes of the August 1, 1977 meeting of the President's Cabinet. This document memorializes the information, advice and recommendation provided the President by his Cabinet, including Secretary Bergland, regarding the passage of the de la Garza amendment, legislative efforts of the Administration in that regard, as well as matters pertaining to the International Sugar Agreement.

10. Six page letter dated December 29, 1977 from Acting Secretary of Agriculture John C. White to the President. The subject of which is "Sugar Import Duties and Fees". It is a document of an advisory nature containing options and recommendations regarding problems arising from the imposition of fee schedules on imported sugar.

11. Three page memorandum dated April 15, 1977 from Secretary Bergland to the President, the subject of which is "Sugar Policy". It is a memorandum of an advisory nature containing options and recommendations concerning the establishment of price support programs and tariffs on imported sugar.

12. Three page letter dated November 8, 1977 from Secretary Bergland to the President. It is a document of an advisory nature containing recommendations concerning import restrictions and the issuance of a Presidential Proclamation imposing import fees upon sugar.

The letter has two attachments: a four page Proclamation regarding import fees on sugar, sirips, and molasses; and a four page Proclamation regarding modification of tariffs on certain sugars, sirips, and molasses. No claim of executive privilege is made as to these attachments.

13. Three page letter dated October 20, 1977, from Assistant Secretary of Agriculture Dale Hathaway through Secretary Bergland to Stuart Eizenstat, the subject of which is "Action on Sugar." It is a memorandum of an advisory nature concerning the timing of establishing a price support loan program for sugar.

The Memorandum has one attachment: a one page undated document setting forth the stocks, consumption and price (current and support), and imports of sugar.

14. Three page letter dated December 29, 1977 from Secretary Bergland to the President. It is a document of an advisory nature containing recommendations concerning the issuance of a Presidential Proclamation imposing import fees on sugar.

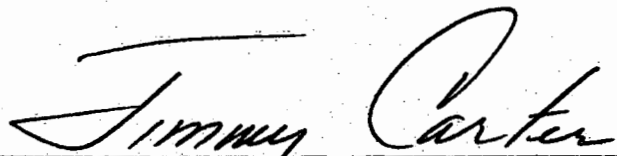
The letter has one attachment: a five page draft Proclamation regarding import fees on sugar, sirips, and molasses.

15. Seven page memorandum (unsigned) dated March 31, 1977, the subject of which is "Interdepartmental Task Force on Sugar". It is a memorandum of an advisory nature containing options and recommendations regarding the methods by which price support could be provided for domestic sugar.

16. Five page memorandum dated February 25, 1977 from Secretary Bergland to the Economic Policy Group, the subject of which is "Sugar Policy". It is a memorandum of an advisory nature containing recommendations and options regarding the International Sugar Agreement as well as the establishment and terms of a sugar price support program.

17. One page memorandum dated November 1, 1977 from Secretary Bergland to Stuart Eizenstat, the subject of which is "Telegram from Senator Long, et al. Regarding Sugar Price Support". It is a memorandum of an advisory nature which contains a characterization of the deliberative process involved in the establishment of the sugar price support programs.

and advice to me would adversely affect the public interest.
I therefore assert this formal claim of executive privilege
as to the documents described in Exhibit A.


JIMMY CARTER
President of the United States

Washington)
District of Columbia) ss.

Subscribed and sworn to before me this ____ day of August,
1978.

NOTARY PUBLIC

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF IOWA
CENTRAL DIVISION

NATIONAL CORN GROWERS ASSOCIATION,)	
INC., et al.,)	
Plaintiffs,)	
v.)	Civil Action No.
ROBERT S. BERGLAND, et al.,)	77-298-1
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I, Jimmy Carter, being duly sworn, do depose and say as follows:

1. I am the President of the United States.

2. I understand that plaintiffs National Corn Growers Association, Inc. and Corn Refiners Association, Inc., have filed suit in the United States District Court for the Southern District of Iowa, Central Division, against Secretary of Agriculture Bob Bergland, among others.

3. I have been advised that on or about January 10, 1978, the plaintiffs filed a First Request for Production of Documents which sought fourteen (14) categories of documents within the possession and control of the Secretary of Agriculture.

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6. The free and frank discussion within the intra- and interagency process with respect to the mandate of the Department of Agriculture to maintain a viable domestic sugar industry through the provision of a price support payment program and a subsequent price support loan program for domestic cane and beet sugar is, in my judgment, an essential part of the decision-making process. To be effective, however, such communications, recommendations and views must remain confidential.

7. Production of the seventeen (17) withheld documents would necessarily recount the reasoning, deliberations, expressions of views and opinions of officials of the Department of Agriculture and my staff involved in the preparation of advice to me. The release of these documents would, in my judgment, be injurious to the public interest and to the constitutional doctrine of separation of powers because I, as President of the United States, need to receive frank recommendations and opinions from officials of the Executive Branch and my staff to effectively discharge my constitutional duties. Any impairment of the free flow of recommendations

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THE WHITE HOUSE
WASHINGTON

17 documents

We have claimed privilege
on all 17.



THE WHITE HOUSE
WASHINGTON

17 documents

We have claimed privilege
on all 17.

THE WHITE HOUSE

WASHINGTON

November 11, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
LYNN DAFT

SUBJECT: Implementing the de la Garza
Sugar Program

On Tuesday, the Department of Agriculture announced regulations for implementation of the de la Garza sugar program (press releases attached at Tab A). Though the program will not become operational for several more days, it is necessary to begin implementation of import restrictions now. Pursuant to your decision to use tariffs rather than quotas, Secretary Bergland also announced that he would ask you to impose fees (tariffs) on imported sugar. As you know, these fees are necessary to prevent the price support program from being rendered ineffective by sugar imports.

To implement these fees, you are required to take three actions:

- (1) Issue a proclamation under the emergency provisions of Section 22(b) of the Agricultural Adjustment Act imposing import fees of up to 50 percent ad valorem.
- (2) As required under Section 22, direct the International Trade Commission to make an investigation of the need for the imposition of import restrictions.
- (3) Issue a proclamation under the Headnote of the Trade Expansion Act of 1962 to raise the duty from 1.875 cents per pound to 2.8125 cents per pound, on average.

The authorizing documents for each of these actions is attached (Tabs B, C, and D). They have been reviewed and approved by the USDA, STR, Treasury, State, and Justice.

A few points regarding the duty:

- o It will be a variable duty, declining as the world price rises. The fee imposed under Section 22 will decline first.
- o The maximum amount of duty authorized is 6.1375 cents per pound. Of this, 2.8125 cents is authorized under the Headnote authority and 3.325 under Section 22.
- o Sugar in transit from foreign ports on the date of the proclamation is exempted from the duty increases.
- o Likewise, sugar sold on "forward contracts" to be delivered by January 1 is also exempted from the duty increases.
- o Sugar entering under the Generalized System of Preferences (GSP) from designated developing countries will be required to pay the Section 22 portion of the duty.
- o Certain sugar destined for industrial use only (accounting for only 0.2 percent of total imports) is exempted from the Section 22 portion of the duty.

We recommend that you approve these proclamations. Your signature will implement the decision to impose tariffs which you made a few days ago.

DECISION

✓ Approved
 Disapproved



Kins (202) 447-6787
David (202) 447-4026

NEWS

U.S. DEPARTMENT OF AGRICULTURE

SECRETARY BERGLAND ANNOUNCES SUGAR LOAN PROGRAM PROVISIONS:

WASHINGTON, Nov. 8 —Secretary of Agriculture Bob Bergland today announced regulations for the 1977-crop sugar loan program required by the Food and Agriculture Act of 1977. With the initiation of the loan program, the Department will end the price support payment program announced earlier (see USDA press releases 2618-77 and 2855-77).

Under the loan program, the Commodity Credit Corporation (CCC) will offer sugar processors loans of 14.24 cents per pound of refined beet sugar and 13.50 cents per pound of cane sugar (raw value).

To qualify, processors must pay producers at least the same prices set under the payments program. Producers, in turn, must pay their sugar production employees at least the minimum wage rates (now being developed by the Department) in order to be eligible for price support.

Loans will be accepted by state Agricultural Stabilization and Conservation (ASC) committees in the state where the sugar processor is headquartered.

The previous payment program still applies to 1977-crop sugar marketed through Nov. 7, if application for payment is made no later than Nov. 22.

Other major loan program provisions appear below.

--Loans can be made on refined beet sugar, raw cane sugar, cane syrup and edible molasses made from 1977-crop sugarbeets and sugarcane for which producers certify to processors that minimum wage requirements are met.

- more -

--Sugar used as loan collateral must be in storage owned or leased by the processor and must not have been reported as marketed under the interim payments program.

--The interest rate in effect at the time a loan is disbursed (currently 6 percent) will not change. Interest is charged only if the loan is redeemed.

--Loans will mature on the last day of the eleventh month following the month of disbursement, but CCC may accelerate the maturity date.

--A processor may redeem a loan at any time during the loan period, but at maturity must either redeem or deliver the commodity to CCC.

--CCC may take delivery in the processor's storage or may direct delivery to another facility. In either case, CCC will take title and, if the quantity delivered times the loan rate covers the loan, will consider the loan as fully satisfied.

--The processor must, where CCC takes title in the processor's storage, keep it in storage until CCC directs him to remove and deliver it to another designated place. CCC will make monthly storage payments after it takes title at a rate of not more than \$0.000833 per pound, per month.

Forms to be used and other program details will soon be available at state ASCS offices in appropriate states.

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USDA 320C-77

NEWS

U.S. DEPARTMENT OF AGRICULTURE

MINIMUM WAGE RATES FOR SUGAR FIELDWORKERS TO BE SET BY USDA:

WASHINGTON, Nov. 8 —Secretary of Agriculture Bob Bergland today announced that he intends to establish minimum wage rates for sugarbeet and sugarcane fieldworkers in carrying out the sugar price support program authorized by the Food and Agriculture Act of 1977.

Before determining the terms and conditions of the minimum wage requirements, comments are being invited from agricultural workers, representatives of labor, producers of sugarbeets and sugarcane, and other interested persons. Comments should be mailed to the Sugar Branch, Procurement and Sales Division, ASCS-USDA, Room 5741 South Building, P.O. Box 2415, Washington, D.C. 20013, and must be received by Nov. 21 to be assured of consideration.

The notice of the proposed determination of minimum wage rates for sugar fieldworkers, which is scheduled for publication in the Federal Register later this week, points out that the Food and Agriculture Act of 1977 provides no guidance or standards to the Secretary in establishing the wage rates. The Department of Agriculture formerly established minimum wage rates for sugar fieldworkers under the Sugar Act of 1948, as amended. That Act expired Dec. 31, 1974. The purpose of the Sugar Act "fair wage" provision was for producers to share with their fieldworkers on a fair and reasonable basis the income received from the sale of sugarbeets or sugarcane. However, the Sugar Act was also structured in such a way as to assure consistently remunerative prices to producers through its "fair price" provisions. Department officials said the price support loan program now being placed into effect does not have a parallel principle.

Nevertheless, the Department intends to establish wage rates which will result in rates that, as nearly as possible, will be "fair" to the worker and "reasonable" to the producer.

The Department is requesting that all respondents to the invitation for comments keep all of the issues in mind when making their specific recommendations on the level of minimum wage rates, the operations to be covered, worker classifications, and wage rate differentials among worker classifications. Information is also being sought on the hourly or piecework rates now prevailing for workers in sugarbeet and sugarcane operations, other farming operations, and nearby industrial enterprises.

- - - - -

USDA 3208-77

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

May 24, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
LYNN DAFT

Stu
LD

SUBJECT:

Proposed Sugar Program

A draft announcement of the new USDA sugar program is attached for your approval. You had asked Secretary Bergland to let you see it before it was made final. Upon your approval, these provisions will be published in the Federal Register with an invitation for comment.

Per your earlier instructions, the program will be effective with the 1977 crop. The eight different harvesting periods for the 1977 crop are described on page 2 of the proposed press release. Stocks remaining from the 1976 crop will not be eligible for payment. *good*

The other issue of some sensitivity is the magnitude of payment to be retained by the processor. The USDA guidelines require processors to pay the grower all the subsidy payment except a reasonable amount to be retained to cover administrative overhead, not to exceed 10 percent of the payment. The USDA feels some retention by processors is necessary to (a) secure processor participation and (b) comply with the legal authority.

We recommend that you approve the USDA guidelines as drafted.

Decision.

✓

Approve

Disapprove

[Handwritten signature]

THE PRESIDENT HAS SEEN

THE WHITE HOUSE
WASHINGTON

September 10, 1977

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
LYNN DAFT *LD*
SUBJECT: Sugar Policy

As Secretary Bergland reported earlier, the Deputy Attorney General has ruled that the sugar payment program we announced on May 4 is unauthorized. You will recall that the payment to the processor was to be passed on to the producer in full, less any administrative expenses incurred by the processor in connection with receiving and forwarding the payment. This, according to the Deputy Attorney General, is "indistinguishable in substance from a program of production payments, which the Act prohibits;...."

The sugar program provisions in the pending "farm bill" include:

- a requirement that the price of 1977 and 1978 crop sugar be supported through loans or purchases at a level between 52.5 and 65 percent of the parity price. In no case is the minimum price support level to be less than 13.5 cents per pound raw sugar equivalent, the same level of income support we proposed last May.
- a requirement that the Secretary of Agriculture establish minimum wage rates for agricultural employees engaged in the production of sugar.
- authorization for the Secretary to suspend the price support program whenever he determines that an international sugar agreement is in effect which assures the maintenance of a price for sugar in the United States of not less than 13.5 cents a pound.
- the Conferees encouraged the Secretary to provide support for 1977 crop sugar marketed between May 4 and the day the new program becomes operative, though some confusion remains over what the Conferees intended on this point.

With respect to a payments program, Secretary Bergland proposes the following action, for which we would like your concurrence before proceeding:

That we proceed with an interim payments program to operate only until the price support program is fully operational. The payment program previously proposed through the formal rule-making process has been modified to overcome the objection of the Deputy Attorney General. The modified program would require the processor to pay the producer the same proportionate share of a raw sugar price of 13.5 cents per pound, as specified in existing contracts. The difference between the actual return and 13.5 cents would be paid directly to the processor. Assuming the program operates for a period of about 2 months (before being replaced by either an international sugar agreement or the new farm bill price support program), USDA estimates it would cost \$45 million. This is included in the FY 1978 farm program budget estimate in our memo to you of September 8. The Secretary proposes to announce this modified program immediately.

The Justice Department has ruled that the USDA proposal meets requirements of existing legislative authority for prospective payments. Justice and Agriculture are continuing to explore possible ways of making retroactive payments to cover that part of this year's crop (mostly Hawaii) that has already been marketed.

To avoid further delay in the prospective payments program, we propose that it be announced immediately while we continue to explore means for providing retroactive payments. There is no disagreement among your advisors on this action.

Decision

 ✓ Concur
 Do not concur

prospective payments

Assuming the "farm bill" is signed into law by the end of the month, compliance with the normal rule-making procedures, including the conduct of wage-rate hearings, will mean that the mandated price support program cannot be implemented before November 1. One alternative is for the Secretary, using existing legislative authority, to implement part of the price support program by October 1. There are significant drawbacks to doing so, however. The International Sugar

Agreement negotiations are scheduled to begin in Geneva on September 19 and continue for three weeks. It would be highly desirable to avoid taking any trade restrictive action - such as would be required by the new price support program -- that might disrupt these negotiations. Since existing law does not provide authority for holding wage-rate hearings and establishing minimum wage rates, that part of the new program must necessarily await approval of the new law. Finally, you have not yet indicated whether you would sign the farm bill. Our initiation of the program now, which the Administration opposed, would strongly imply that you intend to approve the bill.

Secretary Bergland thus recommends that we make the necessary preparations to implement the sugar program required in the farm bill, but that we not implement any part of that program until the farm bill has been signed, public comments solicited, and hearings held to establish minimum wage rates for workers.

Your advisors all recommend that you concur with this action.

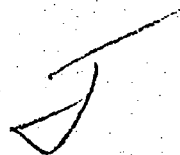
Decision

☒

Concur

☐

Do not concur



THE WHITE HOUSE

WASHINGTON

January 16, 1978

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT
LYNN DAFT *ED Sh*

SUBJECT: Implementation of the Sugar
Price Support Program

In the attached memorandum, Acting Secretary White describes the problems they have encountered in trying to implement the sugar price support program and asks for your approval of measures to correct these problems. Since one of these shortcomings allows refined sugar to be imported at prices that place domestic refiners at a competitive disadvantage, prompt action is required.

Your decision on six issues is sought. A summary of each issue together with agency recommendations follows. A more detailed discussion appears in the USDA memorandum.

- (1) Should the price objective for imported raw sugar be raised from 13.5 cents per pound to 13.8 cents per pound?

Under the price support program, processors can obtain non-recourse loans at 13.5 cents per pound, raw value. However, if sugar producers choose to repay their loans and redeem their sugar stocks, they are required to pay an interest charge of 0.0675 cents per month in addition to repayment of the principal. Thus, the market price for sugar can be at or slightly above the 13.5 cent support level and still be lower than the total payment required for redemption of the loan. Under this circumstance, there would be an incentive for the processor to default on the loan and to acquire needed stocks at the lower market price.

To avoid creating this incentive, the USDA recommends that the price objective for imported raw sugar be raised above the 13.5 cent loan level sufficient to compensate for this charge. The loan level would remain unchanged at 13.5 cents. They estimate that a price objective of 13.8 cents per pound will be required to encourage repayment of loans and help avoid CCC take-over

of stocks during the first third of 1978. To date, loans of \$24 million have been made. To the extent this higher import price objective helps avoid defaults of CCC loans, it will reduce budget exposure. Unfortunately, it is not possible to estimate the magnitude of this exposure with any precision. There will also be a marginal political advantage for domestic sugar interests in that the higher price objective will further tip the competitive balance in favor of domestically produced sugar.

The principal drawback to the higher price objective is that the higher tariff it requires will tend to cause domestic prices to rise faster, though the very large stocks that have accumulated over the past few months in anticipation of the higher tariff will serve as a brake to this increase.

OMB concurs in the USDA recommendation in the interest of holding budget costs down. We consider this a close call. Though we are concerned with the incremental inflationary impact, DPS feels that the budgetary threat is more immediate and therefore concurs with the USDA/OMB recommendation.

CEA, State, STR, and Treasury feel the price objective should remain at 13.5 cents. CEA argues that once the existing excess stocks are worked down, the domestic and imported price will be equalized, leaving no reason for processors to place sugar under loan except as an interim cash flow aid. They go on to argue that this is a service for which processors should be required to pay, especially since the 6 percent interest rate well below commercial rates, already represents an advantageous subsidy. Treasury feels that there is a low risk of CCC take-over of stocks with a price objective of 13.5 cents. State argues that raising the price objective would be costly to consumers and would be perceived internationally as a protectionistic action.

DECISION

Raise price objective to 13.8 cents (USDA, OMB, DPS)

✓

Maintain 13.5 cent price objective (CEA, STR, State, Treasury)

- (2) Should the variable fee provided in Proclamation 4538, which you issued on November 11, 1977, be replaced with a fixed fee?

USDA concludes that the variable fee now in use suffers from two major problems: (1) it is susceptible to manipulation and fraud and (2) it is exceedingly difficult to administer, given the valuation procedures used by Customs. As a result, USDA recommends adoption of a fixed fee of 3.0 cents per pound for raw sugar. They estimate that a fee of this magnitude would bring the price of imported raw sugar to the 13.8 cent price objective they recommend for the first four months of 1978. This fee is based on the average spot prices quoted during mid-August to mid-December of last year for sugar to be delivered in the first quarter of this year. The level of this fee will be changed in the future, consistent with changes in market price. To the extent this is required, it will necessitate additional Presidential proclamations.

OMB and DPS concur with the USDA recommendation of a fee fixed at 3.0 cents. Treasury and State agree that a fixed fee should be used but that it should be set lower. Treasury recommends a fee of 1.7 cents per pound; State recommends 1.5 cents. These lower fees are consistent with the lower price objective they recommend and with their judgment that the appropriate world reference price is somewhat above that assumed by the USDA. STR favors use of a fixed fee, though they believe it should be based on a formula and adjusted periodically. CEA still considers the variable fee as being the most logical, but recognizes the difficulties in its administration. CEA thinks a 3 cent fee is too high and would further add to consumer costs. Also, it is unnecessary to protect the CCC loan program.

DECISION

_____	Fixed fee of 3.0 cents (USDA, OMB, DPS)	
_____	Fixed fee of 1.7 cents (Treasury)	<i>modify to</i>
_____	Fixed fee of 1.6 cents (CEA)	<i>meet 13 1/2 d</i>
_____	Fixed fee of 1.5 cents (State)	

(3) What level of import fee protection should be provided for refined sugar?

The proclamation that is now in effect makes no distinction between raw and refined sugar. As a result, refined sugar imports have escaped the fee, placing domestically refined sugar at a competitive disadvantage. The USDA proposes to correct this by imposing a fixed fee of 3.35 cents per pound. As with the fee on raw sugar, this fee is designed around a 13.8 cent price objective, raw basis. It assumes U.S. refining costs of 4.0 cents per pound. Excluding refining loss (which is calculated at 8 percent of the raw sugar price), this fee also assumes that refining costs, on balance, are about the same in other parts of the world as in the United States.

OMB, CEA, STR, and DPS concur with this recommendation. However, State recommends the fee be 1.85 cents and Treasury recommends that it be 1.94 cents. Though the domestic refining industry, which has been seeking a zero quota on refined sugar imports, will not be happy with a fee of even 3.35 cents, your advisors are agreed that it offers ample protection against foreign competition. To help ease the problem refiners will have with this decision, USDA proposes that: (1) we emphasize the emergency nature of the authorities being used; (2) that we ask Customs to report values on a daily basis so that we can closely monitor the price at which any imports are entering; and (3) that we announce that dumping will not be tolerated and if we find evidence of dumping, prompt action will be taken to curb it.

DECISION

<u>✓</u>	3.35 cent fee (USDA, OMB, CEA, STR, DPS) .
<u> </u>	1.85 cent fee (State)
<u> </u>	1.94 cent fee (Treasury)

reconfirms

- (4) Should the International Trade Commission be directed to expand its ongoing investigation to include sugar-containing products?

The existing and proposed fees on imports of raw and refined sugar create a strong economic incentive for importers to seek ways of importing sugar in forms that would not be subject to the import fees. The USDA therefore recommends that you direct the International Trade Commission to expand its ongoing investigation to include sugar-containing products.

All commenting agencies concur in this recommendation which can be accomplished by signing the attached letter to the Chairman of the ITC.

DECISION

☒ Approve (USDA, OMB, Treasury, STR, DPS)
☐ Disapprove

- (5) Is an exception to be granted for a Malawi shipment delayed in transit?

State has recommended that a limited exception be provided for a cargo of 10,000 tons of Malawian sugar that has been delayed in transit. The cargo was contracted in August for delivery in 1977 but was delayed by a breakdown in rail service between land-locked Malawi and the Mozambique port of export. The cargo, which normally would have easily fallen within the forward contract exemption of the earlier proclamation, should now arrive in January. Assessment of the fees would largely wipe out the 1977 profit for Malawi's sugar industry. Given the relative magnitude of the loss to Malawi and the slight effect of U.S. interests, State and DPS recommends the exemption. No other agencies commented.

DECISION

☒ Grant exemption (State, DPS)
☐ Deny exemption

- (6) Is an exception to be granted for any other shipments that might have been delayed entry by January 1, 1978 due to adverse weather conditions?

Senator Sparkman brought to our attention three other cargoes that are in very much the same situation as the Malawian cargo. Customs has since confirmed his report. Two of the vessels were bound to the Port of New Orleans from the Dominican Republic with cargoes for Colonial Sugar. Another was due in New Orleans from Guatemala with a cargo for Continental. They arrived offshore on December 28, 1977, but were delayed by a heavy fog at the Southwest Pass entrance to the Mississippi River. Because of the fog, they were unable to enter the jurisdictional limits of the Port of New Orleans in time to avoid payment of the additional duty, which took effect January 1.

Senator Sparkman would be genuinely grateful and it would win us points with Senators Long and Johnston if this exception were granted. Frank Moore recommends approval and we concur. The necessary wording has been added to the proclamation to take care of this situation and any others that might have occurred of a similar nature.

DECISION

✓ Grant exemption (Frank Moore, DPS)
 Deny exemption

THE WHITE HOUSE
WASHINGTON

April 23, 1977

*Stu
F
Conclude prior to
Summit*

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
LYNN DAFT *Stu*

SUBJECT:

Sugar Policy

By May 16, 1977 you must decide whether import relief for the domestic sugar industry is in the national economic interest and, if it is, what form of relief you will proclaim.

BACKGROUND

The U.S. Sugar Industry. Historically, the U.S. has produced 50 to 60 percent of its own sugar needs, importing the remainder from various countries in Latin America (56%), Asia and Oceania (33%), and Africa (5%). Sugar beets are produced on about 12,000 farms with production concentrated in California, Michigan, Idaho, and Colorado. Sugar cane is produced on 1,400 units, most of them in Hawaii, Florida, and Louisiana. Of U.S. sugar production, beets account for 60 percent, cane 40 percent. Costs of production vary greatly from region to region with the lowest costs generally found among Minnesota beet producers and the highest costs for Louisiana cane production. The USDA estimates that efficient units in this country can produce at 13.5 cents per pound of raw sugar.

Competition from corn sweeteners has increased markedly in recent years, particularly with the development of high fructose corn syrup (HFCS). Corn sweeteners now account for nearly 25 percent of the U.S. sweetener market, up from 15 percent in 1970. Given the relatively low production costs of corn sweeteners (about 10 cents per pound for HFCS), their share of the U.S. market is expected to continue increasing.

2

The Economic Setting. Sugar prices peaked in November 1974 at 64 cents per pound. This price explosion had its roots in the high world price of 1963 which brought on excessive world production and low world prices from 1965-68. Though the price began to climb in 1969, production did not adequately respond and world sugar consumption exceeded production each year between 1970 and 1972. The record high prices of 1974 stimulated a significant increase in U.S. acreage devoted to sugar beets the following year. This resulted in a much larger domestic crop in 1975 and 1976. This, plus increased beet and cane production in other countries around the world, caused sugar prices to tumble. In late 1976, the world price fell below 8 cents. Since these prices are at or below the cost of production for many of the world's sugar producers, production plans this year have been scaled down. The April 1 planting intentions report for the U.S. shows a 12 percent drop from 1976 sugar beet plantings. This, coupled with a drop in the forecast Soviet crop and expectations for an international sugar agreement, have caused market prices to rebound. New York spot prices for raw sugar fluctuated between 13.0 and 13.5 cents this past week. Futures prices for the next 18 months are holding relatively constant at about this level.

There are two long-run economic problems facing the U.S. sugar industry: One is the high degree of world market price instability that has historically led to the "boom or bust" cycles just described. The other is a continuing need for resource adjustment made necessary by the development of new technologies (e.g., liquid HFCS. . . and a granulated HFCS is probably not far off) and increasing competition from foreign sugar producers.

Policy Setting. For over 40 years, the Sugar Act protected U.S. sugar producers from foreign competition through restrictive country-by-country import quotas. This authority expired in December 1974, in the midst of rising sugar prices. When the Sugar Act expired, the U.S. adopted a non-restrictive quota of 7.0 million short tons and a 0.625 cent per pound tariff. With sugar prices falling throughout most of 1975 and 1976; pressures mounted within the industry to reinstitute some form of protection. In response, the Senate Finance Committee on September 17, 1976 requested an International

Trade Commission (ITC) escape clause investigation. A few days later President Ford increased the tariff to 1.875 cents per pound. In addition, the American Farm Bureau Federation petitioned the Special Representative for Trade Negotiations (STR) for the removal of sugar from the list of articles eligible to receive duty-free treatment under the Generalized System of Preferences (GSP).

The ITC reported to you on March 17, 1977 the results of its investigation relating to sugar. Four of the six ITC Commissioners found that the domestic sugar industry is threatened with serious injury due to increased imports. The recommendation of the ITC regarding import relief was made by three Commissioners who recommended the imposition of an annual quota of 4.275 million tons of sugar for calendar year 1977 and for each calendar year thereafter up to and including 1981. The quota would be allocated among supplying countries on a basis you determine to be equitable.

Any decision, other than the remedy recommended by the ITC, is subject to possible Congressional override, which would force implementation of the ITC recommendation. There has been considerable Congressional interest in this case. Predictably, producer and consumer interests are on opposite sides of the issue. Generally, however, Congressional correspondence has favored some form of assistance for the sugar industry.

In addition to reviews of the ITC report and the GSP petition, which have been carried out by the Trade Policy Staff Committee (TPSC), chaired by STR, the sugar question has also been discussed on two occasions at the EPG. A separate memorandum from the EPG is attached, as is a memorandum from Secretary Bergland.

FUTURE POLICY RECOMMENDATIONS

In considering future sugar policy, it is useful to separate those solutions that can have effect over the longer-term from those that are more atuned to the immediate problems facing the industry.

Longer-Term Solution. The EPG agreed that an International Sugar Agreement (ISA) is the best long-term solution to the problem of unremunerative U.S. sugar prices. An international conference to negotiate a new ISA began on April 18. The United States will be taking an active role in this conference and will seek an agreement, including floor and ceiling prices, that will enable U.S. domestic sugar price objectives to be achieved. Since a year or more will be required to negotiate and implement an ISA (even assuming the negotiations go as well as expected), the EPG concluded that some form of interim assistance should be provided to domestic producers. It is this interim assistance to which the remainder of this memorandum is devoted.

Interim Assistance. Neither the TPSC nor the EPG could support a restrictive import quota system for sugar for the following reasons:

- ° It would have an inflationary impact costing consumers about \$295 million for every 1 cent per pound increase in raw sugar prices.
- ° Quotas are inconsistent with our policy of world trade liberalization. . . would invite retaliation . . . and could jeopardize the success of ISA negotiations now underway.
- ° Would depress world market prices for sugar, adversely affecting the export earnings of a large number of developing countries.
- ° By enhancing U.S. market price, would accelerate the substitution of corn sweeteners for sugar.
- ° Quotas are inefficient in delivering assistance to domestic producers since U.S. producers would receive only 55% of additional expenditures. . . balance would probably take the form of windfall profits to either domestic refiners or foreign producers. ✓

Members of the IFG and the TPSC recommend that you take the following actions:

- ° Deny import relief on grounds of the national economic interest (for the reasons noted above).
- ° Provide income support payments to domestic producers pending negotiation and implementation of an ISA.

This is similar to the system now used to support the incomes of grain producers. Income support (deficiency payments) would be provided to domestic producers to ensure a price of at least 13.5 cents per pound. This can be done under existing legislation. Although this option is the least expensive in economic terms, it would involve a budgetary outlay equal to about \$120 million for each one cent decline in the U.S. price below the 13.5 cents target. As noted above, sugar prices in the U.S. have strengthened recently in response to a number of bullish developments in the market and are now in the range of 13 to 13.5 cents/lb, though the trend could reverse.

Other advantages of this option are that it:

- ° Provides help to domestic producers while avoiding import restrictions.
- ° Avoids windfall profits to importers or foreign producers.
- ° Avoids distortions in market prices, thereby not adding to food price inflation.

Disadvantages beyond budget costs include:

- ° A threatened attempt by representatives of sugar farm workers and the corn sweetener industry to block payments by court injunction. . . though we are advised the legal authority to make such payments exists.
- ° Public criticism of the concentration of large payments among producers and processors (the production and milling of Hawaiian cane is especially highly concentrated).

This recommendation is supported by STA, Agriculture, State, OMB, CEA, Commerce, Labor, Interior, Treasury, and Defense. Though Agriculture had formerly supported a price support loan program with an increased tariff and a nonrestrictive quota, they now support this approach, provided the support is set at 13.5 cents per pound. (The attached Bergland memo is reflective of Agriculture's prior position.) OMB's first choice would be "no action," but if assistance is to be provided, they prefer this option. Also, our soundings on the Hill indicate that this policy would be quite acceptable to those representing sugar producing interests. It would also be favorably received by foreign producers.

Approve ✓

Disapprove _____

*For how long?
a price?*

The disadvantages of this approach could be mitigated by two modifications, individually or in combination. Both were discussed by the EPG and the TPSC and received general, though not unanimous support. Neither is specifically recommended in the attached memoranda, though we feel they merit your consideration.

Modification #1: Limit the payment per pound to 2 cents.

This could be implemented under existing authority. It would limit total budget cost to about \$240 million, though it would also limit protection of producer incomes. Should the ISA negotiations fail, this modification would limit budget exposure; if an effective agreement is successfully negotiated, such a limit would be unnecessary. Since it limits producer protection, the odds of a Congressional over-ride would be increased by adopting this modification, though not significantly. OMB, and CEA spoke in support of this approach. The USDA would probably oppose it.

Approve ✓

Disapprove _____

*Use Mandate
language*

Modification #2: Authority to provide graduated payments.

Under current authority, the Department of Agriculture can not limit the amount of payment received by an individual grower or processor. This modification would require new legislation. Though we doubt that Congress will be willing to provide such authority, an authorization proposal to graduate payments would put us in a better position against very large

7/2

payments and would shift the brunt of the responsibility to the Congress. Any budget savings made possible by this approach would probably not be large. Liberals would applaud it. At the same time, it would be a slap against the Hawaiian sugar industry which is highly concentrated. STR and USDA spoke in support of this approach during EPG deliberations.

Approve _____

Disapprove _____ ✓

GSP -- Status of Sugar

As noted, the American Farm Bureau has petitioned that sugar be withdrawn from duty-free treatment for developing countries under GSP. The TPSC has decided to turn down the petition since imports of sugar entering under GSP account for a small percentage of total imports and do not depress price levels in the United States. Also, removal of sugar from GSP would not be responsive to the interests of developing countries.

Concur _____

Agree with TPSC

Do not concur _____

Eight countries that were ineligible for GSP for sugar in 1976 can be designated in 1977. They are Panama, Jamaica, Guyana, Columbia, Brazil, Argentina, Thailand, and the Republic of China. If you concur with the above decision, the TPSC will consider whether to recommend any of these countries for designation.

We feel it would be wise to announce your overall decision on sugar policy prior to the London summit. Assuming you approve the position recommended above, it will enhance your trade liberalization image.

Subsequent to your decision, STR will prepare: (1) an STR press release announcing your decision; (2) a letter to the Secretary of Agriculture directing the implementation of your decision regarding a domestic sugar program; (3) a decision memorandum that would be published in the Federal Register; and (4) letters for your signature to the President of the Senate and to the Speaker of the House of Representatives reporting your decision to the Congress.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

ok
J.C.

May 24, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Bob Bergland
Secretary

B.B.

SUBJECT: Proposed Provisions of Sugar Program

You asked to see our proposals for operating the sugar program before they are announced.

A notice of proposed rulemaking must be published and interested parties given at least 30 days for comment.

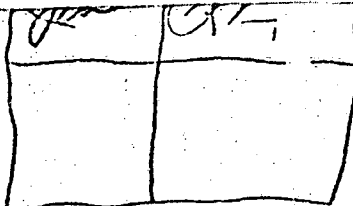
I have attached the complete statement of proposed provisions. Our resolution of the two controversial provisions are noted below.

1. Payments will be made on sugar marketed after May 4 from the 1977 Crop. (Stocks in processors' inventories as of May 4 will not be eligible for payment.)
2. Processors are required to pay the grower all the subsidy payment except a reasonable amount to be retained by the processor to cover administrative overhead associated with the program. This is necessary to secure processor participation, but in no case may it exceed 10 percent of the payment.

*actual
costs*

Upon your clearance, the following provisions will be announced by the Department and published in the Federal Register.

Attachment



PROPOSED SUGAR PRICE SUPPORT PROGRAM OUTLINED BY SECRETARY BERGLAND:

WASHINGTON, May 23--Secretary of Agriculture Bob Bergland today outlined some of the proposed provisions of the sugar price support payments program. The program is being instituted in response to the request of President Carter in his decision announced on May 4.

The President requested the Secretary to institute the program on the basis of a strong belief that a viable domestic sugar industry is vital to the economic well-being of the American people. He decided that, pending the negotiation of an International Sugar Agreement, a program which offers payments of up to two cents per pound of sugar was necessary to assist U.S. producers and processors through the present period of low prices. These payments will help cover the costs of production.

The objective of the program is to support prices in the market place for sugarbeet and sugarcane growers through payments made to sugar processors. This is authorized by Section 301 of the Agricultural Act of 1949, as amended (7 U.S.C. 1447). The statute does not authorize the Secretary to make direct payments to the growers since such payments would not support the price which growers would receive in the market place.

The support price will be 13.5 cents per pound, raw sugar equivalent. This price was determined to be the level of support necessary to cover the average cost of producing and processing sugarbeets and sugarcane in efficient domestic producing areas. The program will be effective ^{with} ~~for~~ the 1977 crop year. Sugar in inventory from crops prior to 1977 will not be eligible for price support.

- more -

The proposed program includes the following general provisions:

1. The 1977 crop year would be defined, by area, as sugarbeets and sugar-cane generally harvested during the following periods:

<u>Sugar Producing Area</u>	<u>Harvesting Period</u>
A. Mainland Beet	
All States, Excluding California and Arizona	September-November 1977
California, excluding southern area	June 1977 - February 1978
Southern California	March-August 1978
Arizona - lowland area	April-June 1978
Arizona - upland area	September-November 1977
B. Mainland Cane	
Louisiana	October 1977-January 1978
Florida	October 1977-May 1978
Texas	October 1977-May 1978
C. Hawaii	Calendar Year 1977
D. Puerto Rico	December 1977-July 1978

2. Raw cane sugar and refined beet sugar marketed from the 1977 crop on or after May 4, 1977, would be eligible for price support payments.

3. The basis of payment would be the difference between the U.S. weighted average price, raw sugar equivalent, received by processors each quarter from the sale of sugar in the market place and the support price of 13.5 cents per pound.

4. If the national average market price received by processors is less than the support price of 13.5 cents per pound, processors would be paid the difference up to a maximum of 2 cents per pound.

5. If the national average market price received by processors is more than the support price of 13.5 cents per pound, no government payment would be made.

6. Payment would be made on the quantity of sugar marketed by the processor each quarter, except that the initial "payment period" would cover 1977 crop: sugar marketed from May 4 through June 30, 1977.

To be eligible for program payments, it is proposed that the grower and processor would have to comply with specified requirements. The proposed program would require that the:

1. Grower and processor have a written contract stipulating the grower's share of proceeds from the sale of sugar in the market place and the method of payment.

2. Processor pay the grower all the price support payment except a reasonable amount which may be retained by the processor to cover administrative overhead associated with the program. In no case may this amount exceed 10 percent of the price support payment.

3. Processor certify the quantity of sugar in inventory at the beginning of the 1977 crop harvesting period.

4. Processor certify and submit a report showing the quantity of sugar marketed from the 1977 crop each quarter and the actual proceeds received therefrom.

5. Processor certify that growers have been or will be paid in accordance with their contractual agreement before any price support payment is made.

The Department intends to include the provisions outlined by Secretary Bergland in a Notice of Proposed Rule Making to be published in the Federal Register in the near future. Interested persons will be invited to comment on the details before they are adopted.

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THE WHITE HOUSE
WASHINGTON

Nov 7, 1977
(or shortly before)

MEMORANDUM FOR

THE PRESIDENT

FROM

STU EIZENSTAT
LYNN DAFT *LD*

Stu

SUBJECT:

Implementation of the de la Garza
Sugar Program

The Department of Agriculture is now making final preparations for implementation of the de la Garza sugar program, as required by the Food and Agriculture Act of 1977. As we reported earlier, Senator Dole threatened to seek passage of a joint resolution of the Congress to override your May 4th decision rejecting the ITC recommendation of a restrictive quota. In an effort to head-off this resolution and to facilitate passage of energy legislation, the Department of Agriculture promised to implement the de la Garza program by November 8th, a month earlier than we had planned. Satisfied with this response, Dole withdrew his resolution.

We would like your guidance before announcing the program. A brief description of the current market situation and a review of recent policy actions follow.

The World Outlook

The 1977/78 sugar beet and sugarcane crops are expected to total 89 million metric tons -- 2.4 million tons more than last year. Ending stocks will increase by about 4 percent, keeping downward pressure on world sugar prices throughout the coming year. The world price is now about 9 cents per pound, raw value basis (or about 11.5 cents landed in New York).

The Domestic Outlook

Overall, the outlook for calendar year 1978 is for a smaller harvest, a reduction in imports, a draw down in stocks, and a decline in per capita and total sucrose consumption. The 13.5 cents per pound minimum support price of the de la Garza program and the interim direct payment program is not expected to stimulate production.

In fact, production will contract in some areas and for 1978 is expected to be 5.9 million short tons, down 4 percent from this year. Stocks have increased 600,000 tons over the last 12 months and are now 1 million tons above normal working levels. Presumably, much of this additional stock accumulation has occurred in anticipation of implementation of the Food and Agriculture Act of 1977. We do not have a good fix on the distribution of these stocks though all segments of the industry appear to be holding additional stocks. Uncertainties about world production adjustments resulting from implementation of the ISA, plus uncertainties about the size of the 1978 crop, are expected to keep domestic stocks above the levels of recent years. Still, a substantial stock draw down is expected in the first half of 1978.

High fructose corn syrup (HFCS) is expected to capture most of the growth in sweetener use in 1978 resulting from population growth. HFCS production will account for about 9 percent of total domestic sweetener use in 1978.

The International Sugar Agreement

The new International Sugar Agreement (ISA) recently concluded in Geneva is now open for signatures. The agreement can enter into force on January 1, 1978, or as soon thereafter as enough governments ratify the agreement or agree to apply it provisionally. The ISA will rely on a combination of export quotas and stock accumulation and release to defend a price range extending from a world price floor of 11 cents to a ceiling price of 21 cents per pound. This range will be subject to review and possible adjustment during the life of the Agreement. The export quotas are the major element in the Agreement for defending the floor price.

As a protection against the market price rising above the ceiling, exporter members will hold 2.5 million tons of sugar in "special stocks." In general, the amount of sugar to be stocked by each exporter is proportionate to its share of the total of export quotas. The stocks, subject to verification, are to be released for sale in three equal amounts when market prices rise to 19, 20, and 21 cents, respectively.

Holders of the special stocks are eligible for interest free loans (at the rate of 1.5 cents per pound per year) from a fund established under the ISA to defray the cost of storing the sugar. When prices rise to the stock release points, these loans are subject to repayment. The funds for stock financing will be generated by means of a fee (0.28 cents per pound initially) levied on all sugar traded in the free market. The actual incidence of this fee will be subject to negotiation between buyer and seller. The U. S. government will not be obliged to collect the fee or contribute to the fund.

Because of the large world sugar supply, we do not believe the ISA will cause the world price to rise to the level needed (about 11 cents) to assure a domestic price equal to the 13.5 cent support level before at least the third or fourth quarter of 1978.

The ITC Findings and Recommendations

On March 17, 1977, the U. S. International Trade Commission (ITC) found that the domestic sugar industry was being threatened with serious injury by increased imports and recommended the establishment of annual import quotas of 4.275 million short tons, raw value. On May 4 you rejected the ITC recommendation and instead elected to aid producers through an interim payment program until such time as we could successfully negotiate an ISA.

The 90-day legislative period during which the Congress could have overridden your decision (the Dole threat) ended October 27th.

Duty Free Treatment of Imports

Under the Generalized System of Preference (GSP) of the Trade Act of 1974, authorized products may enter the U. S. duty free from designated developing countries. To be eligible for GSP treatment, the country's exports of the product in the preceding calendar year must be below a level specified in the legislation (about \$30 million for 1977).

Presently, 17 countries are receiving GSP treatment. Another eight countries are now eligible for designation, based on their level of sugar exports to the

U. S. last year. You will recall that we deferred taking any action to make these additional countries eligible for duty free treatment, pending resolution of the debate over a domestic sugar program and the outcome of the ISA talks. When this issue was considered earlier, there were differing views on how many of the eight countries now eligible should be designated. In particular, the disagreement centered on whether Brazil (the world's third largest sugar exporter) should be designated since it is only technically eligible because of one atypical year, 1976, in which it supplied no sugar to the U. S. market.

The Payments Program

The original payments program announced on May 4, 1977, was revised to remove the legal objections raised by the Deputy Attorney General. Final regulations were published in the Federal Register of October 7, for prospective payments effective from September 15. Since then the Justice Department has ruled that payments could also be made retroactively for that portion of the 1977 crop marketed prior to September 15. An amendment to the final regulations is being drafted which will make the payments program effective from the start of the 1977 harvest forward to the date of implementation of the program contained in the Food and Agriculture Act of 1977.

The de la Garza Program

The sugar program required by the 1977 farm bill is for a price support loan or purchase program for sugarcane and sugar beets. The loans and purchases are extended to processors of cane and beet sugar. The bill also required the USDA to establish minimum wage rates for sugar field workers. The program may be suspended if an international sugar agreement is implemented that raises the domestic price to 13.5 cents per pound.

The Department intends to implement the authority by establishing a loan program wherein the Commodity Credit Corporation (CCC) will make loans to eligible sugar processors at the 13.5 cent support price on whatever quantity is offered. Eligible processors

having 1977 crop sugar stored in an approved warehouse may present a valid, negotiable warehouse receipt as collateral to the CCC and obtain a loan at the support price. Loans will be for an 11-month period bearing interest at 6 percent. The Congress also indicated that stocks acquired by the CCC are not to be sold for less than 105 percent of the loan rate. Raw sugar does not store well over extended periods of time. Thus, the odds of any stocks acquired by CCC spoiling before they could be resold are probably high.

The proposed time schedule for implementing the de la Garza program is as follows:

November 8 -- Final regulations to be published.

-- Depending on the choice of options, quotas and/or tariffs for the remainder of 1977 and for 1978 to be announced.

November 18 -- All sugar import contracts entered into prior to November 8 calling for future deliveries to be reported to the USDA.

December 1 -- Begin processing price support loan applications.

-- Minimum wage rates for sugar workers to be announced. Price support loans to be contingent on certification that minimum wage rates have been paid.

Options for Implementing the de la Garza Program

The principal concerns in implementing the de la Garza program is avoiding a large CCC takeover of sugar stocks (due to the wide disparity that will exist between the U. S. support price and the much lower world price) and avoiding the use of unnecessarily restrictive trade measures. There are three major options:

(1) Quota only.

(2) Tariff only.

(3) Combination tariff/quota.

(1) Quota Only

There are two legal authorities for the use of restrictive quotas: Section 22 of the Agricultural Adjustment Act of 1933 and the Headnote to the sugar tariff schedules. For immediate use of Section 22 authority, it would be necessary for the Secretary of Agriculture to determine and report to you that emergency action is required. You may then immediately proclaim fees or quotas; after which you must institute a USITC investigation. Under the Headnote authority, you could immediately proclaim a restrictive quota without going through the procedures required under Section 22.

If used alone, an annual quota of 4.2 million tons would be required to raise the price of imported sugar to at least 13.5 cents per pound. However, the Department of Agriculture reports that sugar already imported plus sugar scheduled for delivery before January 1, 1978, will exceed 5.0 million tons. As noted above, October 1 stock estimates exceeded pipeline levels by about 1 million tons, partly as a result of the recent rapid inflow of foreign sugar.

To use this approach, a 1977 quota of 5.0 million tons would have to be proclaimed immediately. This would in effect embargo any sugar imports for the remainder of this calendar year, except those already scheduled for delivery. In addition, a quota of 2.1 million tons for the first half of 1978 could be announced, with a determination for the second half of the year to follow later.

Pro

- Could be implemented quickly.
- Once current "excess" stocks are worked off, quota could be set low enough to avoid CCC takeover of stocks.

Con

- Inconsistent with U. S. policy of promoting freer trade, fewer trade restrictions.
- Would result in continuing windfall profits to U. S. importers.
- Yields no Treasury receipts.
- Administratively complicated -- must devise and implement a procedure for dividing the quota among importers.

(2) Tariff Only

The Headnote of the U. S. Tariff schedule authorizes tariff of up to 2.8125 cents to be levied (of which 1.875 cents is currently levied). Section 22 of the Agricultural Adjustment Act of 1933 authorizes an ad valorem "fee" of up to 50 percent to be levied against imported products that interfere with the operation of a price support program for this product. The cost of imported sugar can be equalized with the 13.5 cent minimum price support as long as the world price does not fall below 6.65 cents per pound, i.e.:

World price	6.6500 cents/lb.
Freight and insurance	0.7200
Headnote tariff	2.8125
Sec. 22 tariff	3.3250
	<u>13.5075</u>

Given that the storage costs of sugar under loan are to be paid by the processor, the world price can actually fall slightly below 6.65 cents without CCC acquiring large stocks on defaulted loans.

Despite the plentiful supply of sugar, it is not likely that the world price will dip below the 6.65 cents for any sustained period of time. Should this occur, however, a just-restrictive quota could be invoked under the Headnote authority; that is, one which is set at the expected rate of imports.

Pro

- Maximizes tariff receipts (estimated at \$360 to \$550 million).
- Avoids the legal uncertainties associated with the use of both tariffs and quotas in combination.

Con

- A tariff would not have immediate effect since outstanding contracts would have to be excluded from payment if large financial losses are to be avoided.
- If world prices fall far below 6.65 cents, existing tariff authority will be insufficient to keep the imported price above 13.5 cents, requiring the imposition of a quota if the takeover of stocks by the CCC is to be avoided.

(3) Combination Tariff/Quota

A third option is to use a combination of tariffs and quotas. For the remainder of 1977, we would rely on the use of a restrictive quota, as in option (1). The level of the quota would be determined by the quantity of import already received plus that quantity which it can be certified has already been contracted for delivery this year. Since we wish to avoid cutting across contracts that were made on the basis of the current tariff, it is advisable to avoid implementation of a tariff without advance notification. Thus, we would also announce that as of January 1, 1978, a variable tariff sufficient to raise the import price to 13.5 cents per pound, plus an increment to insure the repayment of loans would be levied. Since it is possible that the world price will fall below the reach of our tariff authorities -- i.e. below a world price of 6.65 cents -- we would also impose a "nonrestrictive" quota set just above the level of expected imports.

Pro

- Minimizes windfall profits of sugar importers.

- Provides tariff receipts to partially off-set higher prices and budget costs of any CCC takeover.
- Less protectionistic.

Con

- Counsel advises that the legality of using these authorities concurrently is uncertain and that they might not withstand a court challenge, should one arise.
- This option is also administratively complicated.

Analysis

None of the options offer a happy prospect, but of the three there is general agreement that the use of tariffs (options 2 and 3) is preferable to the use of quotas. A quota would result in continuing windfall gains to importers and would depress the world market price slightly more. By using tariffs, a portion of the windfall gain is captured and returned to the Treasury. Since the consumer is ultimately bearing the burden of this program -- with additional consumer expenditures of \$400 to \$800 million per year -- we feel this offset is highly desirable.

The choice between options 2 and 3 hinge on the extent to which we want to insure against the world price falling below the reach of our tariff authorities. The Department of Agriculture argues that we should impose a quota at or near the expected level of imports for protection against an uncertain future. CEA and STR argue that it is very unlikely that the world price will drop below reach of our tariff authority...and if it does, we can impose a quota at that time. The use of a tariff only would be more acceptable to supplying nations. It would also avoid setting a precedent for other industries that are seeking import relief. And, finally, the Congress, in its Conference Report on the Farm Bill, indicated that they expected the program to be implemented through the use of tariffs.

For these reasons, we believe the "tariff only" option (option 2) is the preferred option. This would be a variable tariff, with exceptions for sugar contracted before November 8 and for sugar in transit on the high seas.

Decision

- | | |
|-------|--|
| _____ | (1) Quota only |
| _____ | (2) Tariff only (CEA, STR, State, DPS) |
| _____ | (3) Combination quota/tariff (USDA) |

THE WHITE HOUSE
WASHINGTON
July 7, 1977

*Not yet - not
Keep me informed
J*

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
LYNN DAFT *lyn*
SUBJECT: Sugar Policy

Since your decision in early May to deny import quotas for sugar, as recommended by the International Trade Commission, and to seek instead to negotiate an international sugar agreement, coupled with a temporary domestic payment program, two things have happened which have caused us to reassess the situation:

- (1) Most important, the price of sugar has materially weakened. In late April, the New York price of raw sugar peaked at 13.4 cents per pound. It has been falling intermittently ever since and is now below 10 cents. At the time of your decision, we had expected the market price to remain within the 2 cent payment limit of our 13.5 cent price objective, at least over the next few months. It is now well below that level.
- (2) The initial round of negotiations in Geneva failed to reach agreement. A working group will meet later this month to determine whether there is sufficient reason to renew negotiations later this fall. The State Department is relatively optimistic over the prospect of reaching an accord, though the odds are still no better than 50/50.

The combination of lower sugar prices and temporarily stalled negotiations has led to increased pressure for Congressional action. Senator Dole attached an amendment to the Senate agricultural appropriation bill to limit payments to \$50,000. Adoption of this limit would effectively kill the program since it would eliminate about 40% of all payments. Hawaii would be hardest hit, foregoing nearly all its estimated \$40 million in payments. Though we are fairly confident this amendment will be eliminated in conference, there will be

further efforts to cripple the program or replace it with a more protectionistic program when the farm bill reaches the House floor July 19th. Under procedures specified in the Trade Act, the Congress has until late this year to override your decision not to adopt restrictive import quotas. Several members, including Senator Dole, are prepared to seek an override.

As a result of these Congressional actions, we have met with Bob Bergland, Bob Strauss, and Jules Katz to reassess our options. This group has concluded that the policy you announced in early May remains the best option and that we should redouble our efforts to avoid any Congressional action that would undermine its chances of success.

However, the group also concluded that if we are to avoid having the program thrown out by the Congress or overthrown by court action, it might be necessary to supplement the program with a tariff sufficient to maintain a market price of around 11.5 cents. Though we do not recommend the imposition of a tariff at this time, we believe an indication of our willingness to take such action would both reduce pressure for Congressional action and would improve chances for negotiating a satisfactory international agreement. After indicating our willingness to take such steps, we would await results of the next round of international negotiations before recommending further actions.

Beyond the positive effects we believe this would have on the Congress and the international negotiations, it avoids the appearance of vacillation or retreat by the Administration. It is entirely consistent with your earlier decision. Namely, that the best long term solution is a workable international sugar agreement buttressed by administrative actions designed to keep domestic producer prices from falling below 13.5 cents (sufficient to cover production costs of the more efficient beet and cane producers).

We recommend that you concur with this suggestion, which was endorsed by Bergland, Strauss, and Katz.

DECISION

_____ Agree

_____ Disagree

Charlie Schultze feels that we should simply say, "we are considering such tariff action and will make a decision after the international negotiations are concluded". Secretary Blumenthal suggests that "we informally indicate that we are seriously considering unilateral action if the negotiations do not succeed".

THE WHITE HOUSE

WASHINGTON

MINUTES OF THE CABINET MEETING

Monday, August 1, 1977

The twenty-fourth meeting of the Cabinet was called to order by the President at 9:03 a.m., Monday, August 1, 1977. All Cabinet members were present except Ambassador Strauss, who was represented by Deputy Special Trade Representative Alan Wolff; and Secretary Vance, represented by Deputy Secretary of State Warren Christopher.

Other persons present were:

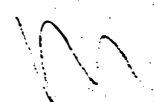
Joe Aragon
Hugh Carter
Midge Costanza
Doug Costle
Stu Eizenstat
Jane Frank
Jim Gammill
Rex Granum
Bob Lipshutz
Gale Matheson

Bunny Mitchell
Dick Moe
Frank Moore
Esther Peterson
Frank Press
David Rubenstein
Jay Solomon
Stansfield Turner
Charles Warren
Jack Watson

The President asked for comments from Cabinet members, beginning with the Secretary of Defense:

1. Dr. Brown was in Korea most of last week discussing the details of withdrawal of U.S. ground troops. En route back to Washington, he stopped in San Francisco to deliver two major foreign policy addresses. Dr. Brown reported that, by and large, the Koreans are reacting well to our plans and are now preparing to improve their own ground forces. Dr. Brown plans to report on his trip to the Congress on Thursday. He spoke to Senator Robert Byrd on Saturday, and Senator Byrd confirmed that such a report was a good idea and consistent with the recent Byrd amendment to the Defense appropriations Bill requiring annual consultation with the Congress on withdrawal of forces from Korea.

-- Dr. Brown also stopped briefly in Japan where he met with government leaders in an effort to allay their concerns



-- The House/Senate Conference Committee is still deadlocked on the subject of urban development action grants. Since one such grant is pending for Johnstown, Pennsylvania, Ms. Harris predicted that some progress with the legislation might be made. She commended the Chairman of the House Conferees for his help.

8. Mr. Bergland said that the forest fire season has begun: 300 fires have already occurred, and many more are expected.

-- The Department of Agriculture is undergoing a zero-base budget review, and "asking all the hard questions."

-- After six days of debate, the House passed the Farm Bill last week. All of the Administration amendments were adopted, but also adopted was an amendment on sugar which the Administration opposed strenuously. The Senate/House conference begins today and should conclude by the end of the week. Mr. Bergland has met with Senate Agriculture Committee Chairman Talmadge and four of the Senate conferees, but predicted that deleting the sugar amendment will be "most difficult." The President asked for a memorandum on the subject. Mr. Schultze inquired about a proposed compromise which he heard discussed on the radio and which Mr. Bergland said is the compromise being offered by the industry. Mr. Bergland said that the industry compromise is also not acceptable. He added that Under Secretary of State Jules Katz is in London negotiating an international sugar agreement, and that some progress is being made. According to Mr. Bergland, if an international agreement is reached soon, the House may be persuaded to abandon its amendment.

8. Mr. Blumenthal said that the large trade deficit is adversely affecting our external accounts. He suggested that the deficit is largely attributable to U.S. energy imports, and he predicted that the deficit is likely to continue at a high level. Dr. Schlesinger noted that energy imports have fallen since June, when they reached a peak because of widespread fear of a rise in OPEC oil prices which never materialized. He said the growth of oil imports is now in phase with the growth of the economy. Dr. Schlesinger also said that he opposes a limitation on oil imports because such a limitation would only drive up oil prices in the U.S. Mr. Schultze added that an import quota would also decrease domestic oil stocks and create a shortage problem if next winter turns out to be as severe as last winter.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

DEC 19 1977

MEMORANDUM TO THE PRESIDENT

SUBJECT: Sugar Import Duties and Fees

This memorandum contains:

a review of our efforts to protect the price support loan program and the domestic sugar industry through a system of duties and fees on sugar;

identifies the problems that have become evident with respect to the proposed fee schedule;

and seeks your approval of measures to overcome these problems.

Background

The final regulations for the interim payment program were published in the October 7, 1977, Federal Register. As subsequently amended, the payment program covers sugar marketed from the start of the 1977 harvest through November 7, 1977, the day before the loan (de la Garza) program was announced. The term "marketed" was amended December 23, with OMB concurrence, to include sugar contracted prior to November 8 for later delivery. The interim payment program will cover approximately 5.4 billion pounds of sugar, requiring budget outlays of \$180 to \$220 million, with the exact amount dependent upon domestic sugar prices.

On November 8, 1977, we announced regulations for the price support loan program required by the Food and Agriculture Act of 1977. The minimum support price is 13.5 cents a pound, raw value. To date, \$24 million has been loaned. These 6 percent loans mature after 11 months, but many will be redeemed earlier.

On November 11, 1977, you issued Proclamations imposing import duties and fees on sugar, sirups and molasses, to protect the price support loan program and the domestic sugar industry. The emergency provisions of Section 22(b) of the Agricultural Adjustment Act were used to impose fees on imported sugar. You also directed the International Trade Commission to undertake an investigation of the need for the imposition of import restrictions, and to report its findings and recommendations at the earliest practicable date.

Sugar on the high seas by November 11 or imported prior to January 2 to fulfill forward contracts entered into before November 11 was exempt from the increase in the duties and from the fees. The sugar trade anticipated this, and an abnormally large quantity of sugar is entering the United States this month.

Effective January 2 all imported sugar will be subject to the higher duties and the fees. The duty is a fixed amount, 2.98125 cents a pound for refined sugar and 2.8125 cents for raw sugar. The fee varies inversely with the world price, from 0 to 3.32 cents as the world price declines from 10 to 6.67 cents a pound. A world price below 6.67 cents requires a comparable reduction in the fee, because it cannot exceed 50 percent of the value. In combination, the duty and the fee (plus freight, insurance and other costs associated with importing sugar) were designed to keep the price of imported raw sugar at 13.5 cents a pound. This price objective will not be realized when the world raw sugar price is below 6.67 cents and would be exceeded with a world price of 10 cents a pound or more.

Fee Schedule Problems

There are several problems associated with the fee schedule in Proclamation 4538:

The 13.5 cent price objective for imported raw sugar should be increased to 13.8 cents for early 1978, to protect the loan program.

The loophole that permits refined sugar to escape the fee when the value is 10 cents a pound or more must be closed, to prevent disaster for domestic refiners.

The daily variable fee should be replaced with fixed fees, at least until after the International Trade Commission reports to you, to minimize the potential for fraud and ease the administrative burden.

The International Trade Commission should be asked to broaden its investigation to include sugar-containing products, so this potential loophole can be addressed.

These problems can be overcome by the issuance of the attached Proclamation and by sending the attached letter to the International Trade Commission.

Price Objectives

The price objective for imported raw sugar should be above the loan price for U.S. produced sugar by at least the interest on the loan because the processor need not pay the interest if he turns the sugar over to CCC. Interest amounts to 0.0675 cents a month, so in April the processor will need a price in excess of 13.77 cents a pound to encourage repayment of the loan. To protect the loan program our price objective for imported raw sugar should be 13.8 cents a pound for the first third of 1978.

The price objective for imported refined sugar must be above the raw sugar price objective by an amount equal to the cost of refining sugar. Current data show such costs to be centered on 4.0 cents a pound for bulk sugar. Therefore, the price objective for refined bulk sugar should be 17.8 cents a pound for the first third of 1978.

The Refined Sugar Loophole

Unfortunately, refined sugar can enter the United States at a price more than 3.0 cents a pound below the 17.8 cent price objective according to the provisions of Proclamation 4538. Proclamation 4538 makes no distinction between raw and refined sugar, and, therefore, as long as the world price of refined sugar is in excess of 10 cents a pound there is a zero fee on imported refined sugar. Since November 11, the value of imported refined sugar has exceeded 10 cents a pound, and thereby escapes the fee. The world price of sugar has risen since early November, and even though it may decline early in 1978, the value of imported refined sugar is expected to remain above 10 cents a pound.

Imposing a fee on raw sugar but permitting refined sugar to escape the fee already is creating problems. Refined sugar is entering the United States at an unprecedented rate. This will become intolerable in January, when the gap between the price of imported raw and refined sugar will narrow to about 1 cent a pound while domestic refining costs are about 4 cents. This loophole must be closed.

Variable Fees

Proclamation 4538 provides for a fee that would change daily, to offset changes in the world price. This system has advantages, but also disadvantages.

The price of imported sugar to the domestic user remains constant, unless the world price is very low or quite high. Realizing our price objective, even though the world price moves over a relatively broad range, provides firm protection to the loan program. It also minimizes attempts to capture a lower fee by varying sugar delivery schedules.

But there is potential for manipulation and fraud. Customs intends to use the voucher for each shipment to determine value which in turn is used to determine the fee. The price paid for sugar by the firm selling to the U.S. buyer will be the value. Since a value above a specified amount escapes the fee there will be great pressure to report a transaction price at the specified amount on all shipments. The shippers choice is to pay a fee to the Treasury, or pay it to the firm or country from which he makes the purchase. Few are expected to opt for paying the fee to the Treasury.

In addition to this basic problem, a totally flexible fee is foreign to the sugar trade. They are accustomed to a fixed fee (the duty). Also, it is more difficult to administer a variable fee than a fixed fee. With the variable fee each shipment must be valued to determine the appropriate fee, and if the fee exceeds 50 percent of the value. With a fixed fee each shipment must be valued, but only to determine if the fee exceeds 50 percent of the value. This normally is a much less complex process. A fixed fee shifts the burden of proof that the fee is inappropriate to the importer; a variable fee places the burden of proof that the fee is appropriate upon Customs.

The flexible fee system has been imposed through the use of emergency powers. The International Trade Commission will be making their report as soon as possible, hopefully in March. Then the options will again have to be reviewed. Establishing an unfamiliar and administratively cumbersome fee system under these circumstances does not appear to be in our best interests.

For these reasons we have come to the conclusion that a less complex system should be put in place effective January 2. Our price objectives for both raw and refined sugar can, we believe, be protected by a fixed fee that would remain in place until after the International Trade Commission has made its report to you, and the options have again been assessed.

Proposed Raw Sugar Fee

The fixed fee we propose for raw sugar is 3.0 cents a pound. The average world price for raw sugar was about 7.3 cents a pound from mid-August to mid-December, the time when most of the sugar to be imported into the United States during the first four months of 1978 was purchased.

A 7.3 cent world price for raw sugar, plus the fee of 3.0 cents, the duty of 2.81 cents, and freight insurance, etc., of about 0.69 cents, brings the price of imported raw sugar to 13.8 cents a pound, exactly equal to our price objective.

At present the world raw sugar price is about 8 cents a pound. Future prices support the view that the International Sugar Agreement, with an 11 cent minimum, will pull prices upwards as we move through 1978. The March 1978 contract is around 9 cents; the October 1978 contract just over 10 cents.

Sugar purchased yesterday at the London spot price with a 3.0 cent fee plus the duty and other costs, would cost the U.S. user about 14.5 cents. This would be above our price objective, and above current domestic prices, so sugar is not likely to enter the United States early in 1978 unless the world price declines.

Although the futures indicate higher world prices, they may decline early in 1978. The incentive to bring sugar into the United States prior to January 2 resulted in a record quantity being imported during December. This abnormal demand will not be present early in 1978. In fact, the demand for imported sugar from U.S. users with the proposed fee schedule in place will be abnormally weak. Both the imposition of the fee itself and the reduced quantity moving to the U.S. will place downward pressure on world prices.

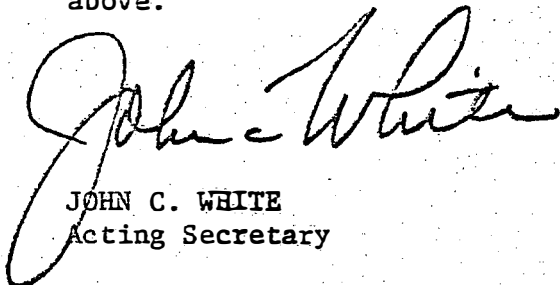
Proposed Refined Sugar Fee

The fixed fee we propose for refined sugar is 3.35 cents a pound. It appears that world raw price of 7.3 cents a pound justifies a world price for refined sugar on the order of 10.8 cents a pound, but data on refining costs in other countries are not as firm as we would like. Adding duty, freight, insurance, etc., and a fee of 3.35 cents to a base price of 10.8, however, brings the price of imported refined sugar to 17.83 cents. This is our price objective for refined sugar. It is exactly the same as the cost of refining raw sugar in the United States, given an imported raw price of 13.8 cents a pound, and refining costs of 4.0 cents a pound. This will protect U.S. refined sugar prices unless refining costs are lower than our estimate or refined sugar sells below costs in world markets. If this happens, we will have to deal with it later.

Sugar-Containing Products

Finally, some sugar-containing products that are not subject to the fees imposed by the existing or proposed Proclamation are likely to be imported in abnormally large quantities. There is strong economic incentive for finding ways to import sugar in forms which would not be subject to the import fees. We recommend that you direct the International Trade Commission to expand its ongoing investigation to include sugar-containing products.

The formal letter from the Secretary, the Proclamation and a draft letter to the International Trade Commission are attached. Issuing the Proclamation, and sending the proposed letter to the International Trade Commission will resolve these problems in the manner described above.

A handwritten signature in cursive script, reading "John C. White". The signature is written in dark ink and is positioned above the typed name and title.

JOHN C. WHITE
Acting Secretary

Attachments



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

EXECUTIVE
CM13-4
FC19
FC6-15

APR 15 1977

MEMORANDUM FOR THE PRESIDENT

FROM : BOB BERGLAND
Secretary

SUBJECT: Sugar Policy

Recommended: That you authorize this Department to announce the establishment of a price support (loan) program for producers of domestic sugar crops, and that the tariff be increased as necessary to limit Treasury expenditures associated with the price support program.

Background: The Economic Policy Group (EPG) has been studying this matter for some time. There appears to be broad support in the EPG for the negotiation of an International Sugar Agreement (ISA) as the cornerstone of our domestic sugar policy. We join in this consensus. However, even if an ISA can be negotiated, it will be well into calendar 1978 before it can be put into operation. I am also of the opinion that there is general agreement that, in the interim, a domestic support program will be needed to bridge the gap between the present and the time when an ISA can affect the market in a significant way.

Domestic sugar producers have production costs averaging 14-16 cents per pound. Even our most efficient producing areas (the Florida sugarcane area and the Minnesota-North Dakota sugarbeet area) cannot produce sugar for less than an average of 14.5 cents per pound. Our goal of supporting prices at 13.5 cents assumes that this is the break-even point for the most efficient of the domestic producers in these areas, and implicit in this concept is the certainty that some domestic production will be phased out, even in the most efficient areas. Data available to us indicates that no improvement in sugar market prices before 1979-80 (in the absence of an ISA) can be expected. Futures prices tend to support this assessment.

Contracts for delivery as much as 18 months distant are selling at prices near present values. There are some reports that the USSR 1976-77 beet crop was below earlier estimates by as much as 500,000 tons of sugar. This has resulted in some strength in the market recently (distant futures moved above 10.0 cents this week). We know that they have made substantial purchases on the open market recently, and it appears to us that they have covered their needs.

The U.S. International Trade Commission (ITC) has found substantial threat of injury to the domestic industry from sugar imports and recommended restrictive quotas as their preferred remedy. However, I find little support among the members of the EPG for restrictive quotas, either for sugar, shoes or television sets. While I have made the same recommendation, I recognize its disadvantages (some increase in consumer prices, windfall profits, and possibly an adverse impact on the ISA negotiations), and will not press the point.

Although several options have been examined, we have discarded most because of either legal or administrative considerations. Therefore, it seems to me that there remains only the following options:

1. Price support (deficiency) payments. Income support (deficiency payments) would be provided to domestic producers to insure returns of 13.5 cents for sugar produced from cane or beets harvested after July 1, 1977. On strictly economic grounds, this option is clearly preferred. It will have no market impact and will not artificially stimulate the production of corn sweeteners. Adoption of this option will not adversely affect the delicate ISA negotiations. On the other hand, the intended beneficiaries (sugar producers and processors) are opposed to it, mainly because it would result in a few very large (and therefore visible) payments. The corn sweetener industry is also opposed, in fact so opposed that they have informed me that if adopted they will seek injunctive relief in the courts. Also opposed are representatives of sugar fieldworkers who insist that any benefits to producers be matched by benefits for workers in the form of higher wage rates. Failing that they, too, would likely seek injunctive relief. For these reasons, I do not support this option.

2. Price support (loan) program with tariff increase. I can put a price support program into place utilizing loans to producers under Section 301 of the 1949 Agricultural Act. Loans would be offered at 13.0 cents to encourage redemption when the market price reaches the support level of 13.5 cents. Loans would be made on sugar produced from cane or beets harvested after July 1, 1977. You could simultaneously announce an increase in the tariff to help protect the operations of the price support program. The tariff increase (under provisions of the Trade Act of 1974) could be up to 50 percent of the existing rate. Since the present rate is 1.875 cents per pound, the new rate could be as much as 2.8125 cents. Or, you could increase the rate by as much as 50 percent ad valorem under Section 22 of the Agricultural Act of 1937, but this would require a new ITC investigation. Any action taken under terms of the Trade Act will leave you more flexibility than a similar action taken under provisions of Section 22.

It may be necessary to reduce the import quota to some reasonable (but not restrictive) level, say to 4.6 - 4.8 million tons, (presently 7.0 million tons; last year 4.66 million tons were imported), to protect the Treasury from unnecessary exposure due to a flood of foreign sugar entering on the heels of a domestic price support program. Such a quota would not, in and of itself, have any influence on the price, but it together with the price support program would boost the price to the support level at some point during the marketing year.

This option would be adequate, I believe, to bridge the gap while an ISA can be negotiated and put into effect. The increase in tariff would protect the Treasury from unacceptable exposure.

Summary. At present prices domestic growers are losing about \$100 per acre on their production, or about \$15,000 for the average sugar farm. If you adopt my recommendation, the most efficient of our growers can at least break-even while the ISA is negotiated and put into operation.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

8 NOV 1977

The President
The White House

Dear Mr. President:

Section 201 of the Agriculture Act of 1949, as amended by Section 902 of the Food and Agriculture Act of 1977 (91 Stat 949, effective October 1977) provides that the price of the 1977 and 1978 crops of sugar beets and sugar cane shall be supported through loans or purchases with respect to the processed products thereof at a level not in excess of 65 per centum nor less than 52.5 per centum of the parity price therefor. Section 201 further provides that the support level may in no event be less than 13.5 cents per pound raw sugar equivalent.

Pursuant to Section 201 of the Act, I have implemented a program to provide price support to sugar beet and sugarcane producers at not less than 13.5 cents per pound, raw sugar equivalent. Price support will be made available through loans by the Commodity Credit Corporation to sugar processors who pledge sugar as collateral on the condition that they pay the applicable support price to producers of sugar beets and sugarcane. If the loans are not redeemed upon maturity, the sugar may be delivered to the Commodity Credit Corporation in satisfaction of the loan. This program is intended to achieve the mandated support level of 13.5 cents per pound raw sugar equivalent.

World prices of sugar are substantially below this level. Currently, prices for raw sugar, f.o.b. basis, are in the range of 7 to 8 cents per pound. These prices are equivalent to a landed, duty paid price range of 10 to 11 cents per pound. These prices reflect a situation in which world supplies are heavily in excess of commercial demand. For the short term, the outlook is that this situation will continue. We are hopeful that the recently negotiated International Sugar Agreement will alter this situation by bringing world supplies into better balance with demand and, accordingly, increase prices from their present depressed levels, which are below the costs of production. The Agreement is, however, not yet in force and we cannot at this time predict with certainty when it will enter into force or when it will raise world market prices to levels which are consistent with the level of the Department's support program.

World production of sugar has exceeded world consumption during the past three years and is expected to do so again in the current crop year. This has led to a substantial build-up in sugar stocks; by the end of

the current crop year (August 1, 1978) these stocks may equal a record 30 percent of world consumption.

These ever-increasing world stocks have had a depressing effect on sugar prices. The average world price during 1975 was 20.5 cents per pound and declined to 11.6 cents per pound in 1976. In October 1977, the average price was 7.1 cents per pound. Since the termination of the U.S. Sugar Act on December 31, 1974, the domestic price has moved in relation to world prices. Generally, the domestic price has exceeded the world price by a margin equal to the cost of shipping and handling and the import duty. The domestic price averaged 10.1 cents in October.

With the prospect of a further build-up in world sugar stocks, world market values will remain relatively depressed. Foreign sugar supplies will be available at prices lower than those applicable under the support program and U.S. sugar users will be influenced to purchase excessive quantities of foreign sugar. The current quota and duty will not provide protection against these sugar imports, displacing substantial amounts of domestic sugar. In turn, domestic sugar will be placed under loan, with the very likely end result that the Commodity Credit Corporation will acquire title to it.

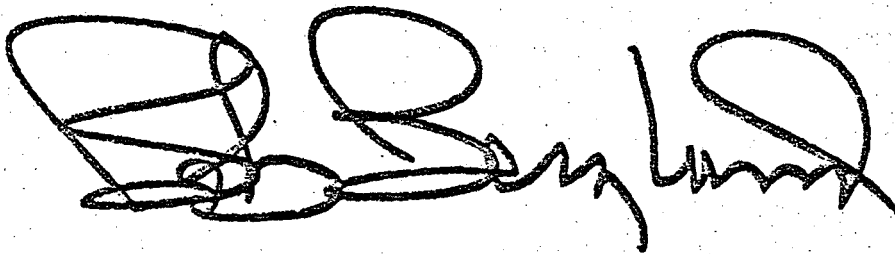
In view of the foregoing, I have reason to believe that sugar, sirups and molasses, as described in items 155.20 and 155.30, part 10A, Schedule 1, of the Tariff Schedules of the United States (TSUS), are practically certain to be imported under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price support program for sugar undertaken by the Department of Agriculture, or to reduce substantially the amount of products processed in the United States from domestic sugar. Accordingly, I have concluded that it is necessary to invoke the authority of Section 22 of the Agricultural Adjustment Act, as amended, which provides for the imposition of quantitative restrictions or fees, in order to prevent the importation of such articles from materially interfering with, or rendering ineffective, the Department's support program for sugar.

I further recommend that, in order to attain, under changing world market conditions, the objective of protecting the price support program with a mandated minimum price support of 13.5 cents per pound, raw basis, an import fee, the amount of which would vary with the value of the articles imported should be imposed. Section 22 provides that such fee may not be in excess of 50 per centum advalorem.

I further recommend that you direct the United States International Trade Commission to make an investigation under Section 22 of the Agricultural Adjustment Act, as amended, as to the need for the imposition of import restrictions on sugar. Enclosed is a draft of a proposed letter to the International Trade Commission.

Because of the threat that large amounts of sugar could be imported into the United States without delay, and since I have reason to believe that such importations are practically certain to be made under such conditions, at such prices, and in such quantities as to materially interfere with the price support program of this Department for sugar, I have determined that a condition exists which requires emergency treatment. I therefore recommend that you invoke the emergency provisions of Section 22(b) of the Agricultural Adjustment Act, as amended, and immediately issue a Presidential Proclamation thereunder imposing import fees, as set forth in the attached draft of an emergency proclamation imposing such import fees upon sugar, these fees to remain in effect pending your action upon receipt of the report and recommendation of the International Trade Commission with respect thereto.

Respectfully,

A handwritten signature in dark ink, appearing to read "B. B. Bland". The signature is fluid and cursive, with the first name "Bland" being more prominent and written in a larger, more stylized script than the initials "B. B." preceding it.

Enclosures

IMPORT FEES ON SUGAR, SIRUPS, AND MOLASSES

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

1. The Secretary of Agriculture has advised me that he has reason to believe that certain sugars, sirups, and molasses, derived from sugar cane or sugar beets, classified under items 155.20 and 155.30, of the Tariff Schedules of the United States (TSUS) (19 U.S.C. 1202), are being, or are practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or to materially interfere with, the price support operations now being conducted by the Department of Agriculture for sugar cane and sugar beets, or to reduce substantially the amount of any product being processed in the United States from domestic sugar beets and sugar cane.

2. I agree that there is reason for such belief by the Secretary of Agriculture. Therefore, I am requesting the United States International Trade Commission to make an immediate investigation with respect to this matter pursuant to section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), and to report its findings and recommendations to me as soon as possible.

3. The Secretary of Agriculture has also determined and reported to me, with regard to such sugars, sirups, and molasses, that a condition exists which requires emergency treatment, and that the import fees hereinafter proclaimed should be imposed without awaiting the report and recommendations of the United States International Trade Commission.

4. I find and declare that the imposition of import fees hereinafter proclaimed, without awaiting the recommendations

of the United States International Trade Commission with respect to such action, is necessary in order that the entry, or withdrawal from warehouse, for consumption of certain sugars, sirups, and molasses, described below by value, use and physical description, and classified under TSUS items 155.20 and 155.30, will not render or tend to render ineffective, or materially interfere with, the price support operations now being conducted by the Department of Agriculture for sugar cane or sugar beets, or reduce substantially the amount of any product processed in the United States from domestic sugar beets or sugar cane.

NOW, THEREFORE, I, JIMMY CARTER, President of the United States of America, acting under the authority vested in me by the Constitution and Statutes of the United States of America, including section 22 of the Agricultural Adjustment Act, as amended, do hereby proclaim that Part 3 of the Appendix to the TSUS is amended as follows:

(a) A new headnote is added which reads as follows:

4. Sugar, sirups, and molasses

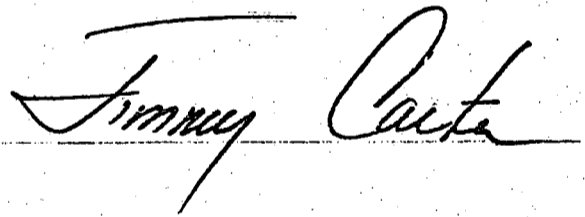
Licenses may be issued by the Secretary of Agriculture or his designee authorizing the entry of articles exempt from the fees provided for in items 956.10, 956.20, 957.10 and 957.20 of this part on the condition that such articles will be used only for the production (other than by distillation) of polyhydric alcohols, except polyhydric alcohols for use as a substitute for sugar in human food consumption. Such licenses shall be issued under regulations of the Secretary of Agriculture which he determines are necessary to insure the use of such articles only for such purposes.

(b) The following new items, in numerical sequence, are added following items 955.06:

<u>Item</u>	<u>Articles</u>	<u>Import Fees</u>
	"Sugars, sirups, and molasses, derived from sugar cane or sugar beets, except those entered pursuant to a license issued by the Secretary of Agriculture in accordance with headnote 4: Principally of crystalline structure or in dry amorphous form, provided for in item 155.20, part 10A, schedule 1:	
956.10	Valued at not more than 6.67 cents per pound	50% ad. val.
956.20	Valued at more than 6.67 cents per pound but not more than 10.0 cents per pound	3.32 cents per lb. less the amount per lb. by which the value exceeds 6.67 cents per lb.
	Not principally of crystalline structure and not in dry amorphous form, containing soluble non-sugar solids (excluding any foreign substance that may have been added or developed in the product) equal to 6% or less by weight of the total soluble solids, provided for in item 155.30, part 10A, schedule 1:	
957.10	Valued at not more than 6.67 cents per pound of total sugars	50% ad. val.
957.20	Valued at more than 6.67 cents per pound of total sugars but not more than 10.0 cents per pound of total sugars	3.32 cents per lb. of total sugars less the amount per lb. of total sugars by which the value exceeds 6.67 cents per lb. of total sugars."

The fees established by items 956.10, 956.20, 957.10 and 957.20 shall apply to articles entered, or withdrawn from warehouse, for consumption on or after the date of this Proclamation, and shall continue to apply to such articles pending the report and recommendations of the United States International Trade Commission and action that I may take on them. However, such fees shall not apply to articles (a) exported to the United States before 12:01 A.M. (U.S. Eastern Standard Time) on the date of this Proclamation or (b) imported to fulfill forward contracts entered into before 12:01 A.M. (U.S. Eastern Standard Time) on the date of this Proclamation, Provided, That articles referred to in (a) and (b) are entered, or withdrawn from warehouse, for consumption on or before January 1, 1978.

IN WITNESS WHEREOF, I have hereunto set my hand this
day of November, in the year of our Lord
nineteen hundred and seventy-seven, and of the Independence
of the United States of America the two hundred and second.

X 

MODIFICATION OF TARIFFS ON CERTAIN SUGARS,
SIRUPS, AND MOLASSES

- - - - -

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

1. By Proclamation 4334, of November 16, 1974, the President modified Subpart A, Part 10, Schedule 1 of the Tariff Schedules of the United States (19 U.S.C. 1202, hereinafter referred to as the "TSUS") to establish, effective January 1, 1975, following expiration of the Sugar Act of 1948, a rate of duty and quota applicable to sugars, sirups and molasses described in items 155.20 and 155.30 of the TSUS. By Proclamation 4463 of September 21, 1976, as amended by Proclamation 4466, of October 4, 1976, the President modified the rate of duty applicable to such sugars, sirups and molasses.

2. The President took these actions pursuant to authority vested in him by the Constitution and statutes of the United States including section 201 (a) (2) of the Trade Expansion Act of 1962 (19 U.S.C. 1821 (a) (2)), and in conformity with Headnote 2 of Subpart A of Part 10 of Schedule 1 of the TSUS, hereinafter referred to as the "Headnote". The Headnote was part of a trade agreement that embodied the results of the "Kennedy Round" of international trade negotiations. That agreement is known formally as the 1967 Geneva Protocol to the General Agreement on Tariffs and Trade, and the agreement includes, as an Annex, "Schedule XX", a schedule of United States trade concessions made during those negotiations. This agreement was concluded pursuant to section 201 (a) of the Trade Expansion Act of 1962 (19 U.S.C. 1821 (a)), and was implemented by Proclamation No. 3822, of December 16, 1967, (82 Stat. 1455) which, inter alia, added the Headnote to the TSUS.

3. The Headnote provides, in relevant part, as follows:

"(i) ... if the President finds that a particular rate not lower than such January 1, 1968, rate, limited by a particular quota, may be established for any articles provided for in item 155.20 or 155.30, which will give due consideration to the interests in the United States sugar market of domestic producers and materially affected contracting parties to the General Agreement on Tariffs and Trade, he shall proclaim such particular rate and such quota limitation, ...

"(ii) ... any rate and quota limitation so established shall be modified if the President finds and proclaims that such modification is required or appropriate to give effect to the above considerations; ..."

4. Section 201 (a) (2) of the Trade Expansion Act authorizes the President to proclaim the modification or continuance of any existing duty or other import restrictions, or such additional import restrictions as he determines to be required or appropriate to carry out any trade agreement entered into under the authority of that Act, except that pursuant to section 201 (b) (2) of the Act, the President may not by proclamation increase a rate of duty to a rate more than 50% above the rate existing on July 1, 1934. The currently applicable tariff rates in rate column numbered 2 for sugars, sirups, and molasses, described in items 155.20 and 155.30, are treated as the rates "existing on July 1, 1934", for the purposes of the President's proclaiming authority.

5. General headnote 4(b) of the TSUS provides that a rate of duty proclaimed pursuant to a concession granted in a trade agreement shall be reflected in the column numbered 1 of the TSUS and, if higher than the then existing rate in column numbered 2, shall also be reflected in the latter column.

6. I find that the modifications hereinafter proclaimed of the rates of duty applicable to items 155.20 and 155.30 of the TSUS are appropriate to carry out that portion of the Kennedy Round trade agreement set forth in the Headnote, and as provided for therein, give due consideration to the interests in the United States sugar market of domestic producers and materially affected contracting parties to the General Agreement on Tariffs and Trade.

NOW, THEREFORE, I, JIMMY CARTER, President of the United States of America, acting under the authority vested in me by the Constitution and statutes, including section 201 of the Trade Expansion Act of 1962, and pursuant to General Headnote 4(b), and Headnote 2, Subpart A of Part 10 of Schedule 1, of the TSUS, do hereby proclaim until otherwise superseded by law:

A. The rates of duty in rate columns numbered 1 and 2 for items 155.20 and 155.30 of Subpart A, Part 10, Schedule 1 of the TSUS, are modified, and the following rates are established:

155.20	2.98125¢ per lb. less 0.0421875¢ per lb. for each degree under 100 degrees (and fractions of a degree in proportion) but not less than 1.9265625¢ per lb.
155.30	dutiable on total sugars at the rate per lb. applicable under Item 155.20 to sugar testing 100 degrees.

B. Those parts of Proclamation 4334 of November 16, 1974, Proclamation 4463 of September 21, 1976, and Proclamation 4466 of October 4, 1976, which are inconsistent with the provisions of paragraph (A) above are hereby terminated.

C. The provisions of this Proclamation shall apply to articles entered, or withdrawn from warehouse, for consumption on and after the date of this Proclamation. However, the provisions of this Proclamation shall not apply to articles (a) exported to the United States before 12:01 A.M. (U.S. Eastern Standard Time), on the date of this Proclamation, or

(b) imported to fulfill forward contracts entered into before 12:01 A.M. (U.S. Eastern Standard Time), on the date of this Proclamation, Provided, that articles referred to in (a) and (b) above are entered, or withdrawn from warehouse, for consumption on or before January 1, 1978.

IN WITNESS WHEREOF, I have hereunto set my hand this
day of November, in the year of our Lord
nineteen hundred and seventy seven and of the Independence
of the United States of America, the two hundred and second.

X *Jimmy Carter*



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

October 20, 1977

TO: Honorable Stuart E. Eizenstat
Assistant to the President for
Domestic Affairs and Policy
Executive Office of the President

THRU: Bob Bergland
Secretary of Agriculture

FROM: Dale E. Hathaway
Assistant Secretary

SUBJECT: Action on Sugar

The Congress in Section 902 of the Food and Agriculture Act of 1977 clearly mandated a price support program for sugar and the Conference Report indicates that it was the intent of the Congress that the price support program be implemented as rapidly as possible. Thus, there is no question that the price support program and the related actions are required; rather, it is a matter of timing.

On October 19, Ambassador Strauss reported that Senator Dole had sufficient votes to override the President's decision to not accept the ITC report which recommended a 4.275 million ton import quota. It was felt that such an override would be extremely disruptive to the President's legislative program and might lead to even more drastic action in other products.

Subsequently it was found that if the Department of Agriculture gave a firm commitment that the loan and purchase program would be implemented by not later than November 8, 1977, the proposed amendment would be withdrawn. The Department of Agriculture is able to meet a timetable of announcing a price support program for sugar by November 8, 1977, as explained in the attached letter from Deputy Secretary White.

Thus, the timetable of implementation of Section 902 has been pushed forward by several weeks from that earlier envisioned. If this timetable is followed it would require:

- (1) An announcement by the Secretary of Agriculture of a price support program by November 8, 1977.

- (2) A report by the Secretary of Agriculture to the President that imports of sugar would render said price support program ineffective and, thus, require revoking Section 22 of the Agricultural Adjustment Act of 1933.

Section 22 of the Agricultural Adjustment Act of 1933 directs the Secretary of Agriculture to advise the President whenever he has reason to believe that any article or articles are being imported under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with any price support or stabilization program, relating to agricultural commodities.

If the President agrees there is reason for such belief, he directs the U.S. International Trade Commission to conduct an investigation, including a public hearing, and to submit a report to him of its findings and recommendations. The President is authorized, based on such findings, to impose such quotas or fees in addition to the basic duty as he shall determine necessary. However, the additional fees may not exceed 50 percent ad valorem and the quotas proclaimed may not be less than 50 percent of the quantity imported during a previous representative period, as determined by the President.

Whenever the Secretary of Agriculture reports to the President that a condition exists requiring emergency treatment, the President may take action without awaiting the report of the International Trade Commission. Any such action by the President shall continue in effect pending the report and recommendations of the International Trade Commission and action thereon by the President.

With regard to the use of a fee, the current low world price for sugar (6.90 cents per pound on October 19) could limit the effectiveness of this choice. It has been determined that to obtain a 13.5 cent landed, duty paid price when a 50 percent ad valorem fee is levied (on top of the existing duty and average shipping and handling charges) the world price should be about 7.5 cents. When world prices are less than this level, the maximum import fee would not yield the required domestic price. On the other hand, as world prices rose above 7.50 cents, the maximum fee would increase and yield a landed price in excess of 13.5 cents. A possible solution to this problem is to specify that the fee will be 50 percent ad valorem but no more than 3.25 cents per pound.

Under the provisions of Section 22, in establishing the quantity of sugar which may be imported, the President is only bound by the provision that the total quantity (quota) may be no less than 50 percent of the total amount imported in a representative period. During the

past ten years imports have averaged 5.1 million short tons. It is inconceivable that a quota (to be market effective) would have to be established anywhere near this low level.

It should be noted that the President has existing authority under the headnote of Part 10 of the Tariff Schedule of the United States to adjust the quantity of sugar allowed to be entered. Currently the total amount shall not exceed 7.0 million short tons, raw value.

According to the Office of the General Counsel, the President may utilize his authority under the headnote of Part 10 of the Tariff Schedule of the United States to reduce imports irrespective of any action he may take under Section 22 to impose fees on imports.

A question has been raised on the status of sugar imports under the GSP. As a general rule, if imports of an item on the GSP list are subsequently restricted, the item is removed from the list. It would appear that any move by the Administration to limit sugar imports would require sugar being removed from the duty free GSP status.

(Attachment)

ATTACHMENT 1

		"Normal"
		CY 1978 S/D
		(million short tons, raw value)
A.	Beginning Stocks	3.6
	Production	6.2
	Imports	<u>4.7</u>
		14.5
	Consumption	11.0
	Exports	nil
	Ending Stocks	<u>3.5</u>
		14.5
B.	Current market price	9.3 cents
	Support price	13.5 "
	Percent price increase required	66 percent
C.	A 66 percent price increase required a 3.7 percent constraint on supplies	
D.	Normal Supply	14.5
	Minus 3.7 percent	<u>.5</u>
		14.0
	Normal Imports	4.7
	Minus	<u>.5</u>
	Quota	4.2



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

DEC 29 1977

The President
The White House

Dear Mr. President:

My letter of November 8, 1977, recommended that, under the emergency provisions of Section 22(b) of the Agricultural Adjustment Act, as amended, you impose fees on imports of sugar, sirups, and molasses in order to prevent such imports from interfering with the Department's price support operations for sugar cane and sugar beets. You did so on November 11 by issuance of Presidential Proclamation 4538. You also directed the International Trade Commission to undertake an investigation as to the need for the imposition of import restrictions on sugar, sirups and molasses, and to report its findings and recommendations at the earliest practicable date.

On the basis of subsequent developments, I believe that further measures should be taken in order to more effectively protect the Department's price support operations for sugar cane and sugar beets from interference by imports. Separate fees should be provided for refined sugar because of differences in price. In addition, I believe that the fees, which at present may vary with each shipment, depending on the value thereof, should be changed to fixed amounts. Fixed fees would simplify both the negotiation of contracts by the import trade and the collection of fees by the Customs Service.

Proclamation 4538 imposes a schedule of import fees applicable to imports valued at less than 9.99 cents per pound. This schedule is keyed to the Department's price support operations for sugar cane and sugar beets and, accordingly, to prices for imported raw sugar, which account for the overwhelming portion of sugar imports. There is also, however, trade in refined sugar at prices normally 3 to 4 cents per pound above prices for raw sugar. Such imports are historically comparatively small.

Current and prospective market conditions indicate that refined sugar imports will be valued at 9.99 cents or more per pound, and therefore, will not be subject to the import fees provided for in Proclamation 4538. The absence of fees for refined sugar parallel to those for raw sugar thus creates strong incentives for importing sugar in refined form rather than raw. Such shifts in trade obviously would be prejudicial to achievement of the Department's price support

program objectives, as specified in Section 201 of the Agricultural Act of 1949, as amended by Section 902 of the Food and Agriculture Act of 1977. Action should be taken to prevent this situation from developing.

I have reason to believe that sugars, both raw and refined, as well as sirups and molasses described in items 155.20 and 155.30, part 10A, Schedule 1, of the Tariff Schedules of the United States (TSUS), are practically certain to be imported under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price support operations for sugar cane and sugar beets undertaken by the Department of Agriculture, or to reduce substantially the amount of products processed in the United States from domestic sugar. Accordingly, I have concluded that under the authority of Section 22 of the Agricultural Act, as amended, it is necessary to impose import fees which would be applicable to all sugars, sirups and molasses and that such fees should be expressed in fixed amounts. Such fees, of course, would have to be limited so as not to exceed 50 percentum ad valorem, as required by Section 22.

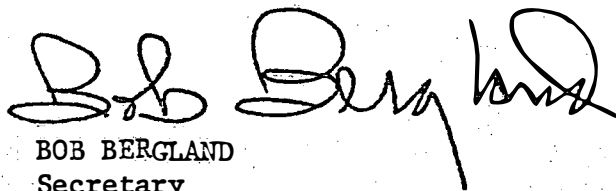
I have been advised that the business operations of the sugar importing trade, including contracting for sugar shipments, would be facilitated and simplified if the import fees were specified in fixed amounts instead of varying in relation to the value of the shipment. In many instances the final value of a shipment is determined subsequent to its entry. In addition, a fixed fee would remove any incentive to arrange contracted prices so as to minimize the actual amount of the fee. The Customs Service could collect the fixed fee for preliminary entry purposes, with the amount of the fee subject to adjustment on the basis of the determination of the statutory value. Accordingly, I recommend that effective January 2, 1978, the import fees be changed to a fixed basis, but not to exceed 50 percent ad valorem.

Because of the threat that large amounts of sugars, sirups and molasses could be imported into the United States without delay, and since I have reason to believe that such importations are practically certain to be made under such conditions, at such prices, and in such quantities as to materially interfere with the price support operations being conducted by this Department for sugar cane and sugar beets, I have determined that a condition exists which requires emergency treatment. I therefore recommend that, under the authority of Section 22 (b) of the Agricultural Adjustment Act, as amended, you immediately issue a Presidential Proclamation thereunder imposing import fees, as set forth in the attached draft of an emergency Proclamation, these fees to remain in

effect pending your action upon receipt of the report and recommendation of the International Trade Commission with respect to imports of sugar, sirups, and molasses.

In addition to the immediate action recommended above, I have reason to believe that articles containing sugar, covered by tariff categories hereinafter specified, which are not subject to the fees imposed by Proclamation 4538 or the additional Proclamation I have herein recommended, are practically certain to be imported under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with the Department's price support operations for sugar cane and sugar beets. Sugar is readily mixed or combined with other articles into a wide variety of sugar-containing products. With world sugar supplies likely to remain substantially in excess of commercial demand, there will be strong incentives for finding ways to import sugar in forms which would not be subject to the import fees. Accordingly, I recommend that you direct the International Trade Commission to expand its investigation to determine whether sugars, sirups and molasses provided for in items 155.35 and 155.75 of the Tariff Schedules of the United States (TSUS) and articles provided for in items 156.25, 156.45, 157.10 and 182.98 of the TSUS if containing sugars, sirups, and molasses of the types described in items 155.20, 155.30, 155.35, and 155.75, are being or are practically certain to be imported under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price support operations being conducted by the Department of Agriculture for sugar cane and sugar beets, or to reduce substantially the amount of any product being processed in the United States from domestic sugar. Enclosed is a suggested letter to the International Trade Commission.

Respectively,



BOB BERGLAND
Secretary

Enclosures

THE WHITE HOUSE

IMPORT FEES ON SUGAR, SIRUPS, AND MOLASSES

BY THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

1. By Proclamation No. 4538 of November 11, 1977, I imposed import fees on certain sugars, sirups, and molasses, derived from sugar cane or sugar beets, classified under items 155.20 and 155.30, of the Tariff Schedules of the United States (TSUS) (19 U.S.C. 1202), in order that the entry, or withdrawal from warehouse, for consumption of such articles would not render or tend to render ineffective, or materially interfere with the price support operations now being conducted by the Department of Agriculture for sugar cane and sugar beets, or reduce substantially the amount of any product being processed in the United States from such domestic sugar beets and sugar cane.

2. Such action was taken pursuant to the authority vested in the President by the Constitution and Statutes of the United States, including section 22 of the Agricultural Adjustment Act of 1933, as amended (7 U.S.C. 624).

3. By letter dated November 11, 1977, I requested the United States International Trade Commission to make an immediate investigation with respect to this matter pursuant to section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), and to report its findings and recommendations to me as soon as possible.

4. The Secretary of Agriculture has advised me by letter dated December 29, 1977, that he has reason to believe that the fees established by Proclamation No. 4538 are not adequate with respect to certain sugars, sirups, and molasses, derived from sugar cane or sugar beets, classified under items 155.20 and 155.30, of the Tariff Schedules of the United States (TSUS)

(19 U.S.C. 1202), to prevent the entry of such articles under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with the price support operations now being conducted by the Department of Agriculture for sugar cane and sugar beets, or to reduce substantially the amount of any product being processed in the United States from such domestic sugar beets and sugar cane, especially sugar not to be further refined or improved in quality and sirups and molasses, and the fees previously imposed should be modified as hereinafter proclaimed.

5. The Secretary of Agriculture, in his letter of December 29, 1977, has again advised me that he has reason to believe that certain sugars, sirups, and molasses, derived from sugar cane or sugar beets, classified under items 155.20 and 155.30, of the Tariff Schedules of the United States (TSUS) (19 U.S.C. 1202), hereinafter referred to as "sugars", are being, or are practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective, or to materially interfere with the price support operations now being conducted by the Department of Agriculture for sugar cane and sugar beets, or to reduce substantially the amount of any product being processed in the United States from such domestic sugar beets and sugar cane, and I agree there is reason for such belief.

6. The Secretary of Agriculture has reaffirmed his determination and reported to me that a condition exists with respect to sugars which requires emergency treatment, and that import fees on sugars, as hereinafter proclaimed, should be imposed without awaiting the report and recommendations of the United States International Trade Commission.

7. I find and declare that:

(a) Sugars, described below by use and physical description, are being imported, or are practically certain to be imported, into the United States under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with, the price support operations now being conducted by the Department of Agriculture for sugar cane or sugar beets, or reduce substantially the amount of any product processed in the United States from domestic sugar beets or sugar cane;

(b) A condition exists which requires the immediate imposition of the import fees hereinafter set forth, without awaiting the report and recommendations of the United States International Trade Commission;

(c) The imposition of the import fees hereinafter proclaimed is necessary in order that the entry, or withdrawal from warehouse, for consumption of such sugars will not render or tend to render ineffective, or materially interfere with, the price support program now conducted by the Department of Agriculture for sugar beets and sugar cane, or reduce substantially the amount of products processed in the United States from such domestic sugar beets and sugar cane.

NOW, THEREFORE, I, JIMMY CARTER, President of the United States of America, acting under the authority vested in me by the Constitution and Statutes of the United States of America, including section 22 of the Agricultural Adjustment Act, as amended, do hereby proclaim that Part 3 of the Appendix to the TSUS is amended as follows:

1. Headnote 4 is amended to read as follows:

4. Sugar, sirups, and molasses

(a) Licenses may be issued by the Secretary of Agriculture or his designee authorizing the entry of articles exempt from the fees provided for in items 956.05, 956.15, and 957.15 of this part on the condition that such articles will be used only for the production (other than by distillation) of

polyhydric alcohols, except polyhydric alcohols for use as a substitute for sugar in human food consumption. Such licenses shall be issued under regulations of the Secretary of Agriculture which he determines are necessary to insure the use of such articles only for such purposes.

(b) "Not to be further refined or improved in quality" as used in item 956.05 means not to be further refined or improved in quality by being subjected substantially to the processes of (1) affination or defecation, (2) clarification, or (3) further purification by adsorption or crystallization.

2. Items 956.10, 956.20, 957.10, and 957.20 are deleted.

3. The following new items, in numerical sequence, are added following item 955.06:

<u>Item</u>	<u>Articles</u>	<u>Rates of Duty</u> <u>(Section 22 Fees)</u>
	Sugars, sirups, and molasses, derived from sugar cane or sugar beets, except those entered pursuant to a license issued by the Secretary of Agriculture in accordance with headnote 4(a):	
	Principally of crystalline structure or in dry amorphous form, provided for in item 155.20, part 10A, schedule 1:	
956.05	Not to be further refined or improved in quality	3.35¢ per lb., but not in excess of 50% ad val.
956.15	To be further refined or improved in quality	3.00¢ per lb., but not in excess of 50% ad val.
957.15	Not principally of crystalline structure and not in dry amorphous form, containing soluble non-sugar solids (excluding any foreign substance that may have been added or developed in the product) equal to 6% or less by weight of the total soluble solids, provided for in item 155.30, part 10A, schedule 1	3.35¢ per lb. of total sugars, but not in excess of 50% ad val.

The provisions of this proclamation and the fees established by items 956.05, 956.15 and 957.15 shall apply to articles entered, or withdrawn from warehouse, for consumption on and after the date of this proclamation, except that such provisions and fees shall not apply to sugar of Malawian origin entered prior to February 15, 1978 pursuant to contracts for delivery to the United States entered into prior to November 11, 1977; and shall continue to apply to such articles pending the report and recommendations of the United States International Trade Commission and action that I may take on them.

IN WITNESS WHEREOF, I have hereunto set my hand this _____ day of January, in the year of our Lord Nineteen hundred and Seventy-Eight, and of the Independence of the United States of America the two hundred and second.

ECONOMIC POLICY GROUP

Interdepartmental Task Force on Sugar

Howard Hjort, Chairman

March 31, 1977

Issue

Excessive world sugar supplies have resulted in the decline of raw sugar prices to a level below the average cost of production for U.S. sugarcane and sugarbeet producers. This situation is expected to persist in the immediate future. The successful negotiation of a new International Sugar Agreement (ISA) would provide some relief to U.S. sugar producers. If the EPG agrees that a new ISA is desirable, the issue is whether some interim assistance should be provided to U.S. sugar producers since at least a year will be required to negotiate and implement a new ISA.

If it is determined that interim assistance should be provided, a decision must be made as to which of several methods of providing assistance should be used.

A draft U.S. proposal for a new ISA is presented for EPG approval. The floor price and financing arrangement are highlighted for EPG consideration.

The U.S. International Trade Commission (ITC) has submitted its report on sugar to the President who has until May 17, 1977, to decide whether to accept or reject the ITC recommendations. An interagency group under STR is preparing the detailed analysis on the report.

Background

Forty years of protection afforded the U.S. sugar industry ended in 1974 with the expiration of the Sugar Act. As a result of expanded production, sugar prices have drifted steadily downward from a historical peak of 64.5 cents per pound in November

1974 to levels below the average cost of production for U.S. sugar producers in the fall of 1976.

In response to pressure from producers for increased import protection, the Senate Finance Committee in September 1976 requested the USITC to undertake a Section 201 escape clause investigation under the provisions of the Trade Act of 1974. Also in September, President Ford tripled the duty on sugar imports to 1.875 cents per pound to provide U.S. producers some protection while the USITC's investigation was underway.

During the first three months of 1977, U.S. sugar prices have averaged 11.2 cents per pound--a level below the 13.5 cent per pound tentative USDA estimate of the average cost of U.S. sugarbeet and sugarcane production. Given current planting intentions and expected yields, prices are forecast to remain at unprofitable levels for the foreseeable future. The plight of U.S. sugarcane and sugarbeet producers is made worse by competition from high fructose corn syrup (HFCS) which can be produced at less cost than most U.S. sugar. A protected price for sugar would encourage increased investment in HFCS production and thereby hasten its displacement of sugar. While the protective options discussed below can provide short-term relief, they will not sustain U.S. sugar producers at current record high production levels. Lower-cost HFCS will continue to increase its share of the sweetener market at the expense of sugar.

USITC Report

On March 17, 1977, the U.S. International Trade Commission (USITC) reported to the President that it had found that the domestic sugar industry is being threatened with serious injury by increased imports. The USITC Commissioners recommended remedies as follows:

- Three Commissioners favored an annual quota of 4.275 million tons to be allocated by the President on a country-by-country basis for a 5-year period.
- Two Commissioners favored an annual global quota of 4.4 million tons for three years to be allocated among U.S. importers by the auction of nontransferable import licenses.

- One commissioner favored an annual quota of 4.4 million tons to be allocated on a country-by-country basis for a 5-year period. Allocation would be determined by the proportion of imports supplied by each of the sugar-supplying countries during the period 1972-76.

The President must decide whether to accept or reject these recommendations by May 17. If the President rejects these recommendations, the Congress has the authority to override the President's decision.

International Sugar Agreement (ISA)

A conference under the auspices of UNCTAD is scheduled to begin April 18 in Geneva to negotiate a new ISA. An interagency group chaired by the Department of State has developed a draft U.S. proposal (copy attached) for a new ISA which has the general concurrence of interested agencies at the technical level. The likelihood of successfully negotiating an agreement will be enhanced if the U.S. announces its intentions in advance and assumes a strong leadership role in the negotiations. Announcement during the conference (April 18 - May 27) that the U.S. is returning to a country-by-country quota system or that the U.S. is implementing the USITC recommendations would be disruptive.

Options Related to Support for Domestic Industry

The first option is to provide no further protection at this time. If additional protection is desired, options 2 through 4 offer different methods of providing it.

Option 1: Offer no further protection to U.S. sugar producers at this time.

This option does not exclude the possibility of providing adjustment assistance when a decision is made on the USITC report.

Advantages:

- Transfer payments called for under any of the protective proposals will not increase income for society as a whole. Each one cent a pound increase in raw sugar prices will cost consumers about \$220 million.

- Sugar is no longer a "critical" item . Substitutes are available if there are future cutbacks in foreign supply.
- Protection would encourage substitute sweeteners and thus tend to offset benefits to domestic sugar producers.

Disadvantages:

- Employment and capital values in a visible and vocal industry will decline as output and earnings fall off; prolonged low prices would drive some producers permanently out of business.
- If all forms of protection are rejected including the ITC's recommendations, the risk is increased that the Congress will override the rejection or enact a program of its own.

Option 2: Price support deficiency payments with no import restrictions

Section 301 of the Agricultural Act of 1949, as amended, authorizes the Secretary to provide price support to producers through payments to processors who pay the support price to producers for sugarbeets or sugarcane. A price support payment program would be operated, in general, as follows:

- Processor pays producer the contractual share normally paid when the average market price of raw sugar is the same as the support price.
- If the price received in the market is lower than the support price on which the producer was paid, the processor is paid the difference by CCC.
- If the price received in the market is higher than the support price, the processor pays the producer his share of the additional proceeds.

Advantages:

- Domestic producers and processors would be assured the support price.
- Payments would reach only the producers/processors, and avoid windfall gains to refiners, brokers and others.

- Domestic market price would continue to be determined by normal market forces in relationship to world market price.
- No added cost to consumers.
- No price "umbrella" for inroads by HFCS.
- Refiners and industrial users could continue to hedge their sugar costs through future trading.
- Does not jeopardize U.S. posture in the ISA negotiations

Disadvantages:

- Potential costs to the Treasury could amount to \$500 million or more unless there were a payment cap or other constraint.
- Large payments which would be made to some processor/producers would be visible and could be subject to public criticism.
- Payments to producers might be withheld by court injunction on behalf of fieldworkers on grounds that over past 40 years benefits of sugar legislation have been split between workers and growers.

The large potential drain on the Treasury inherent in this option could be limited in at least two ways:

--Directly through a cap on payments per pound, e.g. 2 cents, equivalent to \$240 million.

--Indirectly through an increase in the tariff.
The tariff alternative would:

- raise the price of all sugar to consumers.
- disrupt forward contracts.
- violate our GATT obligation and might require compensation
- reduce net Treasury outlays.

Option 3: Price support purchase program with no import restrictions.

Government would purchase sugar at the support price and sell it back immediately at the market price with the Treasury absorbing the loss. This would have the same economic result as option 2 but could avoid the possible legal problem with workers under option 2.

Advantages:

- Same advantages as in option 2.
- Could avoid legal problem with workers.

Disadvantages:

- Would require government to buy all domestically produced sugar as it is produced. Difficult to administer.
- Would be difficult to cap directly. Could be capped through higher tariff.

Option 4: Restrictive import quotas

The supply of sugar available to the U.S. market would be restricted by quotas in such a manner as to clear the market at the break even point for efficient domestic producers, i.e., 13.5 cents per pound.

Advantages:

- Domestic producers are insulated from unremunerative low world market prices.
- U.S. retail prices would be relatively stable except in periods of short world sugar supplies.
- Does not involve Treasury outlays to protect domestic producers.

Disadvantages:

- The market for HFCS will be enhanced, hastening inroads into the sucrose market.
- Quotas will inevitably result in windfall profits to either domestic refiners or foreign producers, depending on how the quota is administered (if quotas were auctioned, the U.S. Treasury would gain the benefit).
- Quotas would reduce trading in futures contracts making hedging operations difficult at times.
- Would disrupt existing forward and long-term contracts.

- Determining the quota will be difficult and, if miscalculated, the desired price effect will not be attained.
- Each 1 cent per pound increase in raw sugar prices will cost consumers about \$220 million.
- Quotas are inconsistent with U.S. attempts to liberalize world trade, and creates potential problems in allocating country quotas.
- Quotas are inefficient in delivering assistance to domestic producers since they would receive only 55% of additional user expenditures for sugar.

ISA Proposal

The attached draft proposal for a new ISA is presented for EPG approval. All aspects of this proposal have been agreed at the technical level except the following two issues:

Issue 1: The floor price in the agreement.

The level of the floor price, x in the attachment, for which the U.S. should negotiate has not been resolved. A range within which U.S. representations may negotiate should be specified.

Production costs and competitive sweeteners will serve to limit the realistic range within which a floor can be negotiated. While information on production costs is extremely uncertain, it is unlikely that many countries can produce sugar profitably for less than 9 cents per pound. At the other end, a floor above 12-13 cents per pound would probably result in increased competition from HFCS. Hence, a range of 9-12 cents may constitute the realistic range.

Issue 2: Financing Arrangement.

It is proposed that the U.S. would contribute \$35-45 million as its share of the cost of the agreement. This is a departure from past practice in which the U.S. has refused to contribute to the cost of commodity agreements. The State Department is studying alternative methods of financing the agreement.

MEMORANDUM FOR THE ECONOMIC POLICY GROUP

FEB 8 1977

FROM: BOB BERGLAND
Secretary

SUBJECT: Sugar Policy

OFFICIAL
SECRETARY'S FILES

FILED
SECY'S RECORDS SECTION

The World Situation and Outlook

World and U.S. sugar prices exploded in 1974; they fell nearly as rapidly as they rose. World prices averaged 11 cents at New York in 1973, 31.6 cents in 1974, 21.9 cents in 1975, and 13.3 cents in 1976.

Today the world sugar price (New York) is about 8 cents a pound, the consequence of an excess supply situation. World sugar stocks this May are expected to be up 4.6 million tons from May 1976.

Sugar analysts believe that under current policies and prices, sugar producers will reduce area and production and that consumption will rise at a relatively rapid rate, but that world consumption is not likely to exceed production until at least 1979.

Current sugar prices are below the cost of production, with the possible exception of a few very efficient cane producers. Sugar analysts judge the average cost of production on a world scale to be in excess of 11 cents a pound.

Below cost of production prices pose the threat of very high world prices early in the 1980's.

The U.S. Situation and Outlook

U.S. producers cannot produce sugar for 11 cents a pound. It costs our producers 12 to 16 cents to produce a pound of raw sugar. The price to U.S. producers under the old Sugar Act this year would be 14.1 cents a pound, without the payment. Adding the payment would bring the average up to 14.6 or 14.7 cents.

In contrast, the price of raw sugar in the United States (New York) is about 10 1/2 cents a pound. The 2 1/2 cent gap between the world and U.S. price is due to the tariff of 1.875 cents plus shipping and insurance. The wholesale price of refined sugar is 4-5 cents above the raw sugar price.

February 8, 1977

Our sugar producers and processors are in difficulty. Four sugar beet processing plants have been closed so far this year. More will unless our sugar policy is changed. Our producers indicated they would reduce beet acreage 7 percent in January. A larger reduction can be expected due to the adverse weather pattern and processing plant closings.

The U.S. sugar outlook is complicated by another development. A new process for producing a competitive sweetener from corn was developed a few years ago. Millions have been invested in facilities to produce this sweetener -- high fructose corn syrup (HFCS). As these new facilities come on stream, HFCS will displace sugar.

Cost of production data for high fructose is sketchy at best. Our analysts judge that a sugar price between 11 and 13 cents a pound would discourage further investment in facilities to produce HFCS. Those in operation appear to be able to produce HFCS at the current U.S. price.

Per capita consumption of HFCS reached 7.1 pounds in 1976, up 2.4 pounds from 1975. Even at the current price of sugar another 2.1 pounds of HFCS is expected to be added to per capita consumption this year. At 11 1/2 cents a pound the increase may be about 2.4 pounds and could rise to 9.9 and 10.6 pounds with a raw sugar price of, respectively, 12 1/2 and 13 1/2 cents a pound.

Recommended Actions

We recommend the United States support and aggressively seek an International Sugar Agreement (ISA) with a minimum price of 10 cents a pound. Such an agreement should also have a maximum price.

A world price of 10 cents a pound would mean a 12 1/2 cent price in the U.S., assuming the tariff is maintained at 1.875 cents. That is within one cent of the price we judge to be the minimum level of support to U.S. producers. As previously noted, a 13 1/2 cent U.S. raw sugar price would be more than a cent below the level we would have this year under the old Sugar Act.

Under the most optimistic scenario, however, an International Sugar Agreement is a year away. Something must be done in the meantime. We can leave it up to the Congress, or we can take action.

I have the authority to implement a price support program for sugar. We can either make loans to producers (through processors) or make payments to producers (through processors).

The President has the authority to impose restrictive quotas on sugar imports.

We recommend that existing authorities be used to establish a sugar program.

Specifically, we recommend the following option:

Option A.

1. Establish a U.S. raw sugar price objective of 12 1/2 cents a pound;
2. Insure a 13 1/2 cents a pound raw sugar price guarantee to the producer;
3. Use a global import quota to reach the 12 1/2 cent price objective (4.3 million tons, larger if our production is reduced due to adverse weather);
4. Make a payment to processors that would be passed through to producers that is equivalent to the difference between the market price and the price objective.

There are these options:

Option B.

1. Establish a raw sugar price objective of 11 1/2 cents a pound;
2. Guarantee a 13 1/2 cent return to producers;
3. Use a global quota to reach the price objective (4.35 million tons);
4. Make a payment to producers that represents the difference between the market price and the price objective, through processors.

Option C.

1. Establish a raw sugar price support level of 13 1/2 cents a pound. Producers would obtain loans from CCC through the processors;
2. Use a global quota to bring U.S. prices up to the level that would encourage producers to repay loans (4.2 million tons).

Option D.

1. Use a global quota to bring U.S. prices up to 13 1/2 cents a pound without a price support program.

Cost Factors

An increase of 1 cent a pound in the raw sugar price adds about \$125 million to producer income, and about \$220 million to consumer costs.

Therefore, under Option A consumers would pay about \$440 million more (up 2 cents a pound) for sugar and producers income would rise about \$375 million (up 3 cents). The latter would include about \$125 million in government payments.

Under Option B consumers would pay about \$220 million more for sugar. Producers income would rise \$375 million and government payments would be \$250 million.

Under Options C and D consumers would pay about \$660 million more for sugar. Producer income would rise \$375 million. Government payments would be zero but there would be a minor amount for processing loans under Option C.

Pros and Cons

Decline in World Price -- An increase in the U.S. price relative to the world price will depress the world price. Each cent increase in the U.S. price would, we believe, drop the world price by about 1/3 of a cent. The decrease in the world price would be the smallest under Option B (1/3 of a cent) and highest under Options C and D (one cent).

Global vs. Country-by-Country Quotas -- A global quota leads to a windfall profit to those who import sugar. The Country approach leads to a windfall profit to the countries that send sugar to us. The magnitude of the windfall depends upon the difference between the U.S. and the world price. Our current estimate of imports in the absence of action is 4.4 million short tons. This assumes a reduction in U.S. sugar stocks and that U.S. production will not be seriously affected by adverse weather. Imports would be reduced under the above Options. The maximum windfall under Option B would be \$90 million, \$170 million under Option A, and \$250 million under Options C or D.

The global quota approach is recommended mainly because it will encourage action on an International Sugar Agreement.

Impact on Consumers -- The increase in retail sugar prices depends upon the price objective. However, even under Option C or D the price to the consumer would be low relative to 1974 or 1975. The proposed action is a hedge against very high sugar prices in 3-5 years. The impact on retail prices can be reduced by government payments.

Impact on Producers -- Producer income is expected to be the same under all options. We judge the 13 1/2 cent price guarantee will not encourage an expansion in U.S. sugar production. Instead, a gradual decline in area devoted to production is expected. Under Options C or D the gain in income would come from the market place. Under Option B, 1/3 comes from the market; 2/3 from government payments. Under Option A, 2/3 comes from the market; 1/3 from payments.

Processors and some producers will not favor any option that includes government payments. They will prefer the price support option. In part this is due to adverse publicity associated with government payments, and partially due to concern over possible litigation over wage rates and worker conditions.

Impact on HFCS -- The rate of growth in HFCS is a function of the market price for sugar. The low sugar price option (B) means slower growth than Option A and Option A means slower growth than Options C or D. The long-term interests of the sugar industry are better served under the low-price options.

Developing Countries -- In considering actions relating to sugar, it should be noted that this commodity is a major source of export earnings for a number of developing countries. Thus, any action on sugar will be an early and significant indication of this Administration's attitude regarding some of their concerns in the trade and commodity fields. Their major interests presumably would be:

1. Strong U.S. support for an International Sugar Agreement;
2. As low a restriction on U.S. imports as is possible; and
3. Internal price levels in the U.S. which will not encourage large scale expansion of the domestic industry or discourage sugar consumption.

Relationship with an ISA -- The Option A price objective is consistent with an International Sugar Agreement that has a 10 cent a pound minimum, no change in the tariff.

The minimum producer price guarantee under all options (13 1/2 cents) is consistent with a minimum (ISA) world price of 11 cents a pound, again assuming no change in the tariff.

Our intention is to phase out the domestic program when the ISA becomes effective.

W. B. Bergland
Secretary
SEC:HHWjort:amh 2-25-77

Walden Butler
2/25/77

RS



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

November 1 1977

MEMORANDUM FOR STUART E. EIZENSTAT, ASSISTANT TO THE PRESIDENT FOR
DOMESTIC AFFAIRS AND POLICY

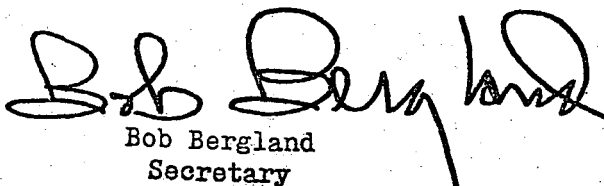
FROM : BOB BERGLAND
Secretary

SUBJECT: Telegram from Senator Long, et al Regarding Sugar Price Support

Two recent actions have been taken which will serve to clear up some of the confusion over sugar policy. First, on September 29, the President signed the Food and Agriculture Act of 1977. That Act contains the so-called "de la Garza amendment" which mandates a price support loan or purchase program for the 1977 and 1978 sugarbeet and sugarcane crops. That program will be implemented as soon as regulations and procedures can be drafted and approved (current target date: November 8). Second, on October 5, we announced an interim payments (subsidy) program designed to bridge the gap between the present and full implementation of the de la Garza program. These programs, taken together, should insure the continued survival of the domestic sugar industry.

Senator Long's information regarding increased sugar imports is essentially correct. We believe that sugar stocks are 750,000 to 1,000,000 tons higher than is customary and traditional. That is about one month's supply at the normal usage rate. However, not all of the increase in stocks can be attributed to anticipation of the Sugar Price Support Program. Some buildup of stocks is due to the threat of a dock strike this fall.

Finally it should be stressed that this Department is giving highest priority to development and implementation of the Sugar Price Support Program contained in the Food and Agriculture Act of 1977.


Bob Bergland
Secretary

THE WHITE HOUSE
WASHINGTON

4 documents

No privilege claimed on
these documents.

THE WHITE HOUSE
WASHINGTON

May 3, 1977

To Mr. Secretary

On March 17, 1977, the United States International Trade Commission (USITC) reported to me the results of its investigation, conducted under Section 201 of the Trade Act of 1974, in which the Commission determined that increased imports of sugar are a substantial cause of the threat of serious injury to the domestic sugar industry. The USITC recommended the imposition of an annual quota of 4.275 million short tons, raw value, for a five-year period beginning with calendar year 1977, to be allocated among supplying countries in an equitable manner.

I have determined today that import relief is not in the national economic interest. However, I believe that a strong and viable domestic sugar industry is vital to the economic well being of the American people, and that this can best be achieved by the negotiation and implementation of an International Sugar Agreement. As you know, I have instructed our negotiators to enter into negotiations regarding such an agreement and discussions are now underway in Geneva.

In the interim, pending completion of these negotiations, I have decided that the implementation of domestic measures are necessary to help U.S. producers and processors through the present period of low prices. Accordingly, I hereby request that you institute, pursuant to Section 301 of the Agricultural Adjustment Act of 1949,

a program for sugar producers offering supplemental payments of up to two cents a pound, whenever the market price falls beneath 13.5 cents per pound, for the interim period, until an International Sugar Agreement is successfully negotiated and implemented.

Sincerely,

The Honorable Robert S. Bergland
U.S. Department of Agriculture
Washington, D.C. 20250

THE WHITE HOUSE

WASHINGTON

May 3, 1977

EXECUTIVE

TA 4-3-4

FG 6-15

FG 19

FG 38

FG 34

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STUART EIZENSTAT
LYNN DAFT

SUBJECT:

Implementing Documents for Sugar
Decisions

Your recent decisions to: (a) deny import relief for the sugar industry, (b) institute an income support program for domestic sugar producers, and (c) concur with the determination that sugar remain eligible for duty-free treatment under the Generalized System of Preferences can be implemented by signing the attached.

We are planning to make your decision public at 4:00 p.m., Wednesday, May 4.

see May 4 1977
letter to England

Sugar

The United States has made a strong commitment to the negotiation of an ISA, which, if successful, will provide some long-term assurance of greater stability of world sugar prices and supplies. The successful negotiation and implementation of an ISA would render unnecessary further consideration of unilateral measures by the United States.

Finally, I am asking you to continue to follow the sugar import situation closely and, in consultation with the Secretary of Agriculture to advise me with respect to any need for consideration of further actions.

I have also concurred with the determination by the Trade Policy Staff Committee that sugar will remain eligible for duty-free treatment under the Generalized System of Preferences (GSP).

This determination shall be published in the Federal Register.

THE WHITE HOUSE

WASHINGTON

May 3, 1977

MEMORANDUM FOR

THE SPECIAL REPRESENTATIVE FOR TRADE NEGOTIATIONS

SUBJECT: Decision on Sugar Under Section 202(b) of
the Trade Act of 1974

Pursuant to Section 202(b) of the Trade Act of 1974 19 U.S.C. 1330, 88 Stat 2014, I have determined the action that I will take with respect to the report of the U.S. International Trade Commission on the results of its investigation regarding sugar, dated March 17, 1977. This investigation was undertaken at the request of the Senate Finance Committee.

I have determined that import relief for sugar is not in the national economic interest. Import relief, achieved either through quotas or tariff increases, would have an inflationary impact on the economy, raising prices to consumers without the promise of off-setting price stabilization benefits. Import relief would be of questionable benefit to the domestic sugar industry, because it would encourage increased market penetration by substitute sweeteners, particularly high-fructose corn syrup which can be produced at a lower cost than most U.S. sugar. Finally, import relief would adversely affect the export earnings of a large number of developing countries which depend on sugar exports for their economic growth and prosperity.

I firmly believe that it is important to maintain a viable domestic sugar industry in this country. I have therefore requested the Secretary of Agriculture to institute an income support program for sugar producers, offering supplemental payments of up to 2 cents per pound, whenever the market price falls beneath 13.5 cents a pound. Such a program will help cover the costs of production of U.S. sugar producers, pending the negotiation of an International Sugar Agreement (ISA).

November 14, 1977

*copy attached to Nov. 8, 1977 letter
from Bergland - Jack Campo*

Dear Mr. Secretary:

The enclosed copies of two Proclamations by the President, entitled "Import Fees on Sugar, Sirups, and Molasses" and "Modification of Tariffs on Certain Sugars, Sirups, and Molasses," are transmitted for the files of the Department of Agriculture.

Sincerely,

Robert D. Linder
Chief Executive Clerk

The Honorable Bob S. Bergland
Secretary of Agriculture
Washington, D.C. 20250

10
Enclosures ✓

dwc

COPY

January 23, 1978

Dear Mr. Secretary:

The enclosed copy of a Proclamation by the President, entitled "Import Fees on Sugar, Sirups, and Molasses," is transmitted for the files of the Department of Agriculture.

Sincerely,

Robert D. Linder
Chief Executive Clerk

The Honorable Bob S. Bergland
Secretary of Agriculture
Washington, D.C. 20250

Enclosure

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